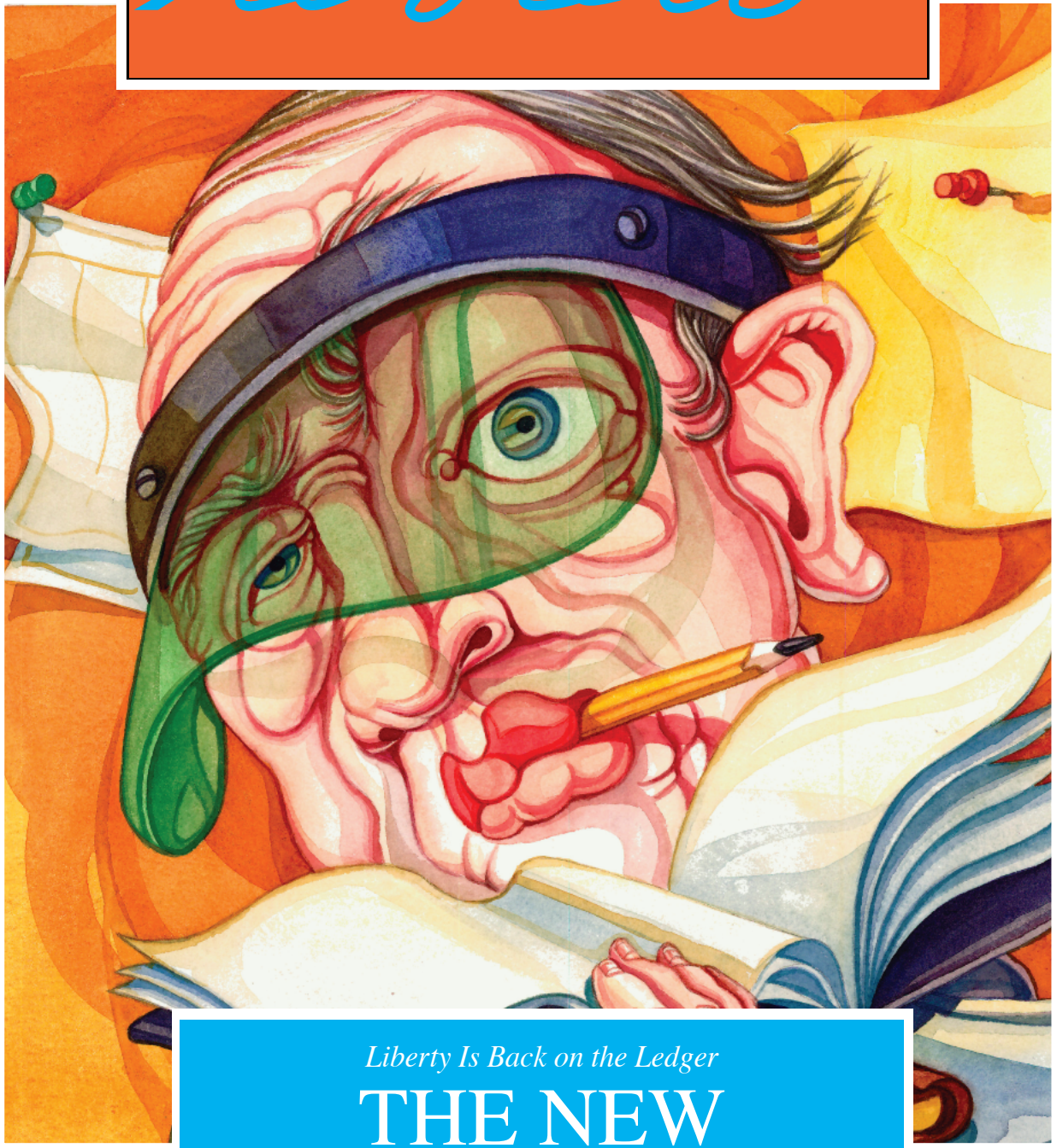


# INDIANA POLICY

*review*



*Liberty Is Back on the Ledger*

## THE NEW INDIANA CITY

*"A future that works"*

*In Congress, July 4, 1776,  
the unanimous declaration  
of the thirteen United States of America:*



*When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation. We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their safety and happiness. Prudence, indeed, will dictate that governments long established should not be changed for light and transient causes: and accordingly all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same object evinces a design to reduce them under absolute despotism, it is their right, it is their duty, to throw off such government, and to provide new guards for their future security.*



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## A FUTURE THAT WORKS

Our mission is to marshal the best thought on governmental, economic and educational issues at the state and municipal levels. We seek to accomplish this in ways that:

- Exalt the truths of the Declaration of Independence, especially as they apply to the interrelated freedoms of religion, property and speech.
- Emphasize the primacy of the individual in addressing public concerns.
- Recognize that equality of opportunity is sacrificed in pursuit of equality of results.

*The foundation encourages research and discussion on the widest range of Indiana public-policy issues. Although the philosophical and economic prejudices inherent in its mission might prompt disagreement, the foundation strives to avoid political or social bias in its work. Those who believe they detect such bias are asked to provide details of a factual nature so that errors may be corrected.*

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## INTRODUCTION: THE TEXAS EXAMPLE

If Indiana wants to know what it's doing wrong, why its economic prospects are ranked 47th of the 50 states, it will want to learn what Texas is doing right. It has little to do with its geography and everything to do with public policy. Texas remains one of the few states in the nation without an income tax. Texas is also a "right-to-work" state, so workers are not required by law to join unions. Cities there have well-earned reputations for low regulation and a "can-do" business attitude attractive to start-ups and growing businesses.

STALEY

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## AT CITY HALL, THERE ARE NO MORE EASY ANSWERS

The author, a veteran Terre Haute councilman, has some bad news for Indiana municipal officials: There are no more easy answers. He sees difficulty for any city politician who can't or won't differentiate between posture and principle. The desire to "create" jobs is *not* a principle, he reminds us, but limiting government to the protection of life, liberty and property *is* a principle.

CUMMINS

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## A CHARTER FOR A 'NEW INDIANA CITY'

In what amounts to a road map to local prosperity, the author outlines eight principles and 27 specific policy recommendations for the use of public officials interested in turning their communities into "havens for liberty, entrepreneurship and free enterprise." Included is a municipal scorecard that gives citizens an idea of how their local government is faring in the competition to attract jobs and investment.

DRANIAS

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## THE MAGIC OF ASSET DIVESTITURE

When the members of a Hoosier family hit hard times, they look for expenses to cut and things to sell. The author shows how Indiana and its cities can do the same. He promises that if local officials invest the right resources, asset divestiture and outsourcing can generate money up front without obligating the city to future spending and programs. And as a happy byproduct, local government can end up improving the quality of its programs, services and infrastructure.

RANDAZZO

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## WHAT WE CAN LEARN FROM SANDY SPRINGS, GEORGIA

Fed up with high taxes, poor service delivery and a perceived lack of local control, Sandy Springs, Georgia, in effect put city hall up for sale. The city contracted all the government services that its state constitution would allow. Now, Sandy Springs operates with 14 percent of the employees of a comparable nearby city and with an annual budget \$30 million less.

GILROY

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## A TALE OF THREE CITIES

A popular sheriff in northern Indiana recalls the relative decline of his New England hometown, whose leadership in the 1960s put all of its faith in Washington rather than working to remove local disincentives to free-market investment.

SQUADRITO

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*Fighting off one more tax increase isn't the problem.*

*Avoiding usurpations of government that will throw us into abject slavery is the problem.*

For some, the news that Indiana missed the September revenue estimate by a whopping \$165 million brought to mind the pejorative, “close enough for government work.”

When or if the nation emerges from Washington’s malfeasance, we will want to restore our lost faith in local government. Particularly, we will want to know which city and state models are working and which are not.

Ryan Cummins and the other contributors to this journal want you to know that will require an abrupt reversal of policy for some Indiana communities. Those are the ones that took the paths of least political resistance.

That meant the lockstep work rules and salary schedules of a teachers union were given a higher priority than the bankruptcy of hometown businesses. That meant instituting “show” programs that promised only to slow rather than reverse the increase in taxes and other disincentives. Mostly, that meant ignoring a breakdown in the two greatest of economic engines, rule of law and the free market.

And thus has Indiana slouched toward Armageddon with Republicans as well as Democrats under the impression that wealth is government inspired and directed. There hasn’t been a statewide election since the 1940s when both candidates didn’t promise to “create” jobs.

The governor, in announcing the dismal revenue figure, said he was not prepared to offer a policy change, just the promise to try to keep Indiana “above water and solvent,” to try to keep the books balanced. His economic advisers apparently had told him he was on course, that we were going to miss the iceberg.

Yes, we can be excused if we feel

like ticket-holders on the Titanic, assured that the deck chairs will be kept properly aligned “no matter what.” It is why we stand a pathetic 49th in the category, “Growth Prospects,” in this year’s *Forbes* ranking.

Assessing blame is not our job. That is the responsibility of the Indiana electorate (or those parts of it not made irrelevant by gerrymander). But let us just say to all officeholders that coyness in the interest of political ambition is one thing but dooming your state to the status of a banana republic is another.

A friend of this page, a candidate for the state legislature, was being pressed to sign one of those 1990ish no-tax pledges. He deferred, suspecting that we had passed the point where posture mattered.

Indeed, such a simplistic pledge sends a message that the pledgee doesn’t fully understand the gravity of the situation. Fighting off one more tax increase isn’t the problem. Avoiding usurpations of government that will throw us into abject slavery is the problem.

Today’s pledge needs to be more expansive, implies Nick Dranias, another contributor to this journal. It must encourage what a few years ago could be taken for granted: the presumption of liberty, the use and enjoyment of property, the protection of personal safety, fiscal responsibility in government, accountability, local sovereignty, transparency and the right to reconstitute city hall when it gets out of control. (*See the scorecard on page 10.*)

And that in a nutshell is what our Dr. Sam Staley sees Texas and other successful states working to achieve.

All while Indiana continues to take comfort in an accountant’s trick, *i.e.*, that it is outperforming neighboring Michigan, a state with more people working for the government than for the private sector. We might as well boast that our Zeppelin floats better than their Hindenburg.

Which leads us to a fuller understanding of what the late William F. Buckley meant when he described his mission as “standing athwart history yelling, ‘Stop.’”

STOP — now that would make a fine banner across the Statehouse entrance as legislators return for another session of self-destruction. — *tcl*

*“Engines of Idea Power: The Rise of Conservative Think Tanks: The emergence of state-level think tanks is a welcome development on the American Right. It has great potential. Nearly 200 years ago Edmund Burke declared, ‘the only thing necessary for the triumph of evil is for good men to do nothing.’ In Indiana and elsewhere, good men and women have taken his words to heart — with results that give me confidence that conservatism in America has a future as well as a past.”*

— Dr. George H. Nash from a speech delivered to the Indiana Policy Review Foundation included as a chapter in his most-recent book, *Reappraising the Right: The Past and Future of American Conservatism*, ISI Books, Wilmington, Delaware, 2009.



## THE LONE STAR EXAMPLE

*To stay competitive, Indiana must find the political will to control spending, reduce tax burdens and free up the labor market.*

by SAM STALEY

As Hoosiers claw back from the depths of the recession, they will need to avoid falling into the trap of comparing themselves to their Midwestern neighbors. The post-recession world will be more competitive and more intense than any other time in economic history. This is why state and local policymakers would probably be better off looking south, deep south, for lessons about what will sustain their economy in the 21st century.

On the one hand, comparisons to the East and West are tempting because Indiana is faring much better than its neighbors economically. Michigan's statewide unemployment rate crested 15 percent in September. (Note: Only national numbers were available for October as this issue of the journal went to press.) Illinois' and Ohio's rates have already passed 10 percent and are likely to go much higher. Meanwhile, Indiana's statewide unemployment rate, at an illusory robust 9.6 percent in September, appears to lag its harder-up neighbors by significant margins because it tracks slightly below the national rate of 9.8 percent.

Indiana, of course, scored an economic victory of sorts when it lured Honda's new automobile plant to Greensburg in 2006. The \$550-million plant now employs more than 1,000 workers building the Civic sedan and the natural-gas powered Civic GX. But this is one positive step in a sea of economic change and competition.

Indiana needs to think beyond the Midwest if it

wants to compete in an increasingly competitive global economy. The state can't afford to compare itself to the economic laggards that make up the states in the Midwest and Northeast. Many of the advantages that traditionally held jobs and investment in these regions have disappeared. Indiana needs to think nationally, even globally, if it wants to compete effectively in the current century.

Indeed, the lesson for Indiana's economic-development officials may be 1,100 miles away in San Antonio, Texas. Toyota has invested \$1.3 billion in its San Antonio facility, and the plant now employs nearly 2,000 workers. More importantly, Toyota invested \$100 million to retool the plant to accommodate a transfer of the Tacoma pick-up truck facility from northern California. The northern California plant was Toyota's first, opening in 1984. Now, 4,700 workers in high-tax, business-unfriendly northern California will be idled as a result of the move.

Toyota's decision to transfer these manufacturing jobs is one example among thousands made each year that make Texas the nation's most-dynamic state economy even in a recession. The state's unemployment rate is 8.2 percent, well-below the national average, and its major urban economies generate jobs faster than their counterparts almost everywhere else in the nation.

Houston and Dallas-Fort Worth rank as the nation's fourth- and sixth-largest

Houston and Dallas-Fort Worth rank as the nation's fourth- and sixth-largest metropolitan areas and are growing about twice as fast as Indianapolis. The question Indiana elected officials should be asking themselves is: What does Texas have that Indiana does not?



*Samuel R. Staley, Ph.D., is an adjunct scholar of the foundation and editor of this dedicated issue on urban policy. Dr. Staley is director of urban growth and land-use policy for Reason. His more than 100 professional articles, studies and reports have appeared in publications such as the Wall Street Journal, the New York Times, the Washington Post, the Los Angeles Times and National Review.*

*Texas cities also have well-earned reputations for low regulation and “can-do” business attitudes attractive to start-ups and growing businesses. Houston, with a city population of 2.1 million people, still does not have zoning, and this fall voters turned down a mayoral candidate interested in further regulating land use and ramping up urban planning.*

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The question Indiana elected officials should be asking themselves is: What does Texas have that Indiana does not?

Conventional wisdom might argue that Texas has an inherent advantage because of its warmer climate. While this may have been true for states with milder winters, such as North Carolina, Tennessee and Virginia, weather appears to work against states in the deep South and Southwest. Harvard University scholars Edward Glaeser and Kristina Tobio, for example, found that workers needed higher wages to compensate for the more-oppressive summers in these states compared to other states. Rising productivity and affordable housing were far more important determinants of the economic rise of the South than sun, surf or other sun-state amenities.

Texas has other important advantages that have little or nothing to do with its geography and everything to do with public policy. For example, Texas remains one of the few states in the nation without an income tax. Texas is also a “right-to-work” state, so workers are not required by law to join unions. Texas cities also have

well-earned reputations for low regulation and “can-do” business attitudes attractive to start-ups and growing businesses. Houston, with a city population of 2.1 million people, still does not have zoning, and this fall voters turned down a mayoral candidate interested in further regulating land use and ramping up urban planning.

In its sweeping examination of state fiscal policy, “Rich States, Poor States,” the American Legislative Exchange Council (ALEC) recently highlighted this success, ranking the economic performance of Texas first among the 50 states. In contrast, Indiana ranked 47th, just above Illinois, Ohio and Michigan.

Nevertheless, Indiana has hope. The same report that ranked the Hoosier state’s economic performance in the cellar also forecasts better times ahead. Indiana’s economic outlook, according to ALEC, ranks it 17th in the nation, citing its relatively low minimum wage, low average workers’ compensation costs, and tort liability system as advantages. State and local lawmakers have also helped keep the lid on debt as a share of personal income.

*“I suppose there will have to be new revolutions, with new generations who will have to discover the values which our forefathers handed down to us. If those truths stop being real, maybe it’s better to let them go, to let some new generation discover, as though for the first time. Maybe freedom is just one of those things you can’t inherit.”*

— Peter Bradford (Robert Ulrich) at the Lincoln Memorial in a closing scene of the 1987 ABC television mini-series, “Amerika.”

*“I apprehend no danger to our country from a foreign foe . . . Our destruction, should it come at all, will be from another quarter— from the inattention of the people to the concerns of their government, from their carelessness and negligence. I must confess that I do apprehend some danger. I fear that they may place too implicit a confidence in their public servants, and fail properly to scrutinize their conduct; that in this way they may be made the dupes of designing men, and become the instruments of their own undoing. Make them intelligent, and they will be vigilant; give them the means of detecting the wrong, and they will apply the remedy.”*

— Daniel Webster (1782-1852)

These advantages won’t be enough for Indiana to stay ahead in the 21st century but they will give it a leg up on states that insist on raising spending (and debt) and micromanaging the workplace.

Elected officials will still need to find ways to control spending, reduce tax burdens and free up the labor market to ensure the state economy can adapt to changing times quickly and efficiently.

This will require adopting some of the best practices from across the nation to provide the services Hoosiers want while keeping spending and tax burdens as low as possible.

That’s the guidebook we hope the essays in this journal will provide. Q

## AT CITY HALL, THERE ARE NO MORE EASY ANSWERS

*How to quit groveling and start growing.*

*"Perhaps the sentiments contained in the following pages, are not yet sufficiently fashionable to procure them general favor; a long habit of not thinking a thing wrong, gives it a superficial appearance of being right, and raises at first a formidable outcry in defence of custom. But the tumult soon subsides. Time makes more converts than reason."*

— opening paragraph of "Common Sense," by Thomas Paine

by RYAN CUMMINS

These are the times of "revenue reduction," words that strike fear in the hearts of bureaucrats and politicians across the state. It is in such times when the habit to which Thomas Paine might have referred comes into play — an immediate and fervent search to find new sources of money for local government. After all, that is the supposed solution to the fiscal challenges that now face Indiana cities and counties, challenges that likely will become tougher in the months to come.

This false solution, however, assumes that nearly everything local governments do is vital or beneficial. Right here is a good time to re-read the thoughts of Mr. Paine: "A long habit of not thinking a thing wrong gives it the superficial appearance of being right."

In fact, citizens find that revenue reduction can be a desirable situation. Revenues are, after all, taxes, and when the flow is reduced to government it means the money is retained by citizens. For it is a fact that local government produces no profits, no earnings that finance its operations.

All of those revenues must come from the productive efforts of taxpayers. Protecting their property rights goes to

the heart of the fiduciary duty of a local elected official.

For the reality of 2010 and perhaps beyond is lower tax revenue for cities, counties and all the entities of local government. This means not just reductions in the rate of increase (too often the definition of "cuts") but an actual net reduction in the amount of money available for local government to spend. One of the primary reasons is that caps on Indiana property taxes are progressively coming into effect. Simultaneously, subsidies from both state and federal sources are being reduced. And on top of all that, put in place a general backlash from taxpayers with ever-higher financial burdens and you have a political problem that will require courage and principles on the part of local-government leaders.

I happen to think that a situation resulting in taxpayers keeping more of their property is a good thing. I will try to make the case here for why reduced revenues, and consequently limited government and expanded individual liberty, constitute a win-win situation for all concerned. I will address my arguments to those who currently hold elected office or contemplate doing so in the future. I also will address those who have an

*Local government produces no profits, no earnings that finance its operations. All revenues must come from the productive efforts of taxpayers, and protecting their property rights goes to the heart of the fiduciary duty of a local elected official.*



Ryan Cummins, an adjunct scholar and Terre Haute businessman, served two terms on the Terre Haute City Council. Cummins was often the lone dissenting vote on economic development issues, arguing for free-market alternatives and against popular tax rebates and various public-private partnerships.



*The property-tax caps were in fact a result of a failure to deal directly with increased expenditures.*

interest in their communities becoming a place with real opportunities for the next generation.

Nonetheless, many local politicians, bureaucrats and activists disagree. They see this as an Armageddon, not an opportunity, for local government.

#### *The Current Situation*

Local government officials, bureaucrats and their lobbyists are, predictably, in panic. Without some ideas or principles to guide them in their understanding of the duties and responsibilities of government, trepidation is the result of economic change. Many folks are elected to office or hold positions in government based on pretty vague notions as to what they are supposed to accomplish. When asked during a campaign, the answers can range from “creating jobs” to “stimulating economic development” to “upholding Hoosier values.”

These are postures rather than policy positions. They offer no guide for tackling the issue of reduced revenues.

The first political reflex is taxation. This last decade, most Indiana cities and counties took this shortsighted route, imposing significant local income taxes on citizens in their jurisdictions. Sophists holding office called it “investing in ourselves.”

Many, however, paid for their shortsightedness by being asked by voters to find other employment. Told initially that this was relief for skyrocketing property taxes, the typical Hoosier has learned that he or she will be paying local income taxes while watching property taxes quickly creep back up to previous levels and higher. The property-tax caps were in fact a result of a failure to deal directly with increased expenditures. The caps cut off the most common means for local government to expand at the expense of their tax base. Raising taxes, you see, is generally a losing proposition.

Another response was to look at user fees. These include charges for public-safety response, licensing and permits, parking, health testing, jail housing and nearly anything else to which a fee can be attached.

But fees are just a different form of tax. An example comes from my own Terre

Haute Common Council. There, the cost of water-hydrant rental from property taxes was shifted to the water bills of ratepayers. At the same time, the council maintained the revenue from property-tax collections.

Taxpayers weren't completely fooled, however, and it became an issue that contributed to the defeat of several incumbents in the next election. While it may be difficult for citizens to identify the exact sources of tax increases, they know when the burden increases and will act accordingly. Implementing user fees is not a winning plan, especially if it is not clearly coupled with a reduction of property tax.

Yet another temptation is to target entities normally exempt from local property tax. Colleges, churches and large charitable organizations are seen as potential sources of new money. It is a politically appealing idea, especially when there is a public perception that a particular concern either has extra cash or is utilizing services paid for by taxpayers.

In towns with colleges, these relations are especially important to the character and uniqueness of a community. There is no quicker way to sour the town-gown relationship, however, than for a local government to impose taxes in the form of new fees on either the institution or its student. Wringing additional funds out of these organizations is a poorly thought approach to finding more money. Collecting new revenues while creating animosity between a city and community institutions important to its citizens is hardly a positive way to deal with reduced revenue streams.

Nor is looking to state government a viable option. In fact, the reduction in property-tax replacement credits is a factor in the increase in actual property tax-payments by Hoosiers. But it pays to look at the whole picture. In my town, a council member decried the reduction as the cause of increased property-tax payments while ignoring the substantial and increased spending supported by his own votes on the city budget.

The difference caused by the reduction in state money flowing to local government is placed on the backs of the local property taxpayers. That's certainly a

negative for those taxpayers, but it serves to clearly show the actual cost of local government.

Spending money to hopefully make money is normal practice in a private business. For local government, however, it rarely works that way.

Faced with the financial squeeze, governments often try to “market” their way out of the jam. It is not uncommon now for a municipality to pay tens of thousands of dollars for nothing more than a catchy slogan. This is hardly a viable means to grow the tax base of a city. It offers the opportunity for sensible people to make a satirical point that is often remembered more than the original slogan. In Wisconsin, the new slogan, “Live Like You Mean It,” was quickly turned to “Tax Like You Mean It.” Snappy slogans and marketing make-overs are poor substitutes for sound public policy.

To summarize, increasing taxes is not generally a wise option for either side of the discussion. Making up a shortfall with fees and new charges on all manner of services causes problems and leads to election defeat. And looking to non-profits for “service fees” wrecks important community relationships. Nor are monies likely to be forthcoming from state government to fill a gap between revenues and expenses. And finally, catchy jingles won’t carry the day.

Is there any win-win solution for local government, local citizens, taxpayers and business in this new economy?

#### *Win-Win Solutions*

Any answer must recognize some basic non-partisan facts about local government and its operations. First, all revenues received by local government are paid under severe penalty. Taxes are not paid voluntarily out of civic pride or a sense of community responsibility. Nor are they “the price of civilization,” as is sometimes claimed by those with a special interest.

Don’t pay your taxes and you are fined. Don’t pay either the taxes or the fines and your property is seized. Resist the seizure and you will be met with violence. Resist violently and . . . well, you know how that ends. This is not some anti-government harangue; it is the current reality.

Secondly, every penny of local government revenues, directly and indirectly, comes from the productive efforts of private citizens. Municipalities do not generate profits, but rather they depend on profits produced by others.

Lastly, the lion’s share of revenue is spent on compensation. As an example, in my last year on the Terre Haute Common Council, we created a budget that spent more than 80 cents of every revenue dollar on wages and benefits. The situation is similar in most cities.

The point is that you can tinker around the edges saving a few thousand here and there but it will hardly dent the seven-figure dollar amounts needed to address the typical municipal shortfall. It is only by confronting head-on the personnel costs for local government that a resolution can be crafted that is in the best interests of all citizens.

A second and obvious solution is to limit local government to its proper functions — namely, the protection of the life, liberty and property of citizens from force or fraud. If you consider that statement for a moment, you realize that it means the elimination of a good portion of what your city government is now doing: Cities wouldn’t build downtown buildings, or sports facilities, or operate cemeteries, or drive nearly empty buses around. The attendant and unnecessary costs in capital, operations and labor would remain in the pockets of citizens.

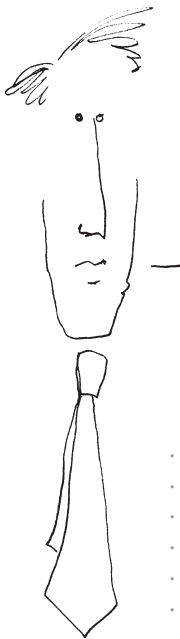
Many ardent community boosters are left aghast at such a notion. “How do we make progress?” I respond by reminding them of the involuntary nature of taxation. Then the question turns back on them: “Would you send your neighbor to jail for not supporting your particular vision of progress”? It’s an important question to apply to every civic issue.

Limiting government, especially in the current fiscal climate, is a positive solution for officeholders and citizens alike in all Indiana cities. And there is a related solution: vigorous support of free-market policies for the wants and needs of citizens.

Look around in any Hoosier city or county. Nearly every function conducted by local government is also provided by the market. Parks are provided by government

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*The desire to "create" jobs is not a principle; limiting government to the protection of life, liberty and property is a principle.*



*"Government: If you think the problems we create are bad, just wait until you see our solutions."*  
— Anonymous

but private parks abound in every part of the state. Ambulance service is provided by government but private ambulance service exists in many cities. Transportation, cemetery operation, recreational facilities, sports venues, festivals, cultural events and public-safety training are provided by local government. Nearly every single one also is provided by private suppliers. The win-win solution here is to apply the options of the free market to every function of government that might be considered vital to economic development, then watch as your community gains a competitive advantage in savings and efficiency. A particular function may be provided

privately or by government. Either way, when the voluntary exchange of the free market is integral, you will know it is the most cost-effective solution.

The third winning solution is an expectation of personal responsibility from citizens in your city and county. Sadly, more and more folks automatically look to government to provide it. There is a growing sense of entitlement in Indiana and America.

Unscrupulous politicians are happy to oblige, of course, and when they do everyone loses—even those who consider themselves entitled. For if someone wants a place to swim, play golf, skateboard, it is not a denial of their rights to demand they provide that for themselves.

It is not acceptable for one person to use the force of government to make another pay for his or her ride to Wal-Mart, for the new building or equipment for his or her business or to attend the local symphony. We all are incalculably better off when personal responsibility replaces government force and coercion.

Alexis De Tocqueville described the particularly American notion that each of us, voluntarily, is responsible for our self, our family, our fellow citizen.

We are each granted by God the right to life, liberty and pursuit of our own happiness. Everything else is on us.

## What It Will Take

Some Indiana cities continue scratching around for a few more bucks to stave off their day of reckoning. I read about mayors who are leaving a few positions unfilled, commissioners who are limiting cell phones, bureaucrats who keep their old copier another year, and similar tinkering around the edges. If this is what your government is doing to address the current economic situation, you can be assured that a fiscal train wreck is headed your way.

At the beginning of this article, I identified the difficulties facing a person who is making decisions in local government without articulated, understandable, factual principles to guide his or her judgment. The desire to "create" jobs is not a principle. Limiting government to the protection of life, liberty and property is a principle. An effort to "stimulate" economic development is not a principle. Understanding and supporting, by one's actions, freedom and free markets is a principle. Stating that one "supports Hoosier values" is not a principle. Exemplifying personal responsibility and demanding it from fellow Hoosiers is a principle.

In your community there are political and community leaders with the courage to implement these principles. Identify them and help them prepare to meet our economic challenges head-on.

The success of what some of us are calling the "New Indiana City" depends on using these principles to achieve solutions that benefit everyone, regardless of economic situation or political philosophy.

For too long now, we have thought what was wrong was right. Q

## Has He Rolled Over Yet?

*"No country upon earth ever had it more in its power to attain these blessings than United America. Wondrously strange, then, and much to be regretted indeed would it be, were we to neglect the means and to depart from the road which Providence has pointed us to so plainly; I cannot believe it will ever come to pass."*

— George Washington



## A CHARTER FOR A 'NEW INDIANA CITY'

*Eight principles and 27 recommendations to  
restore liberty in your city, county and state.*

by NICK DRANIAS

Indiana cities are facing fiscal challenges unseen in more than a generation as the U.S. economy works its way through the worst economic recession in 25 years. While municipal, township and county fiscal officers will be faced with difficult decisions and tradeoffs, the current environment also has created an unprecedented opportunity for elected officials interested in making local government more supportive of free markets and individual liberty. This article outlines eight principles and 27 specific policy recommendations that should be considered by public officials interested in turning their local communities into havens for liberty, entrepreneurship and free enterprise. Together, these principles and policy recommendations create a framework for a Local Liberty Charter for local government, or what the Indiana Policy Review Foundation refers to as "The New Indiana City."

### PRINCIPLE NO. 1

#### *A Presumption of Liberty*

Self-ownership implies the right to freedom of action. Local governments tend to overly restrict the freedom to work, to run a business and even to communicate in a peaceful and non-fraudulent way. For local governments to turn their communities into centers for liberty and entrepreneurship, they must adopt policies that robustly protect the freedom to act consistently with the equal freedom of others.

To promote this freedom, local officials should attempt to codify what

Professor Randy Barnett  
of Georgetown University



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calls a "presumption of liberty" — the idea that the law should presume each individual is free to act peaceably and honestly. This can be done by precluding, simplifying or eliminating regulations, through "sunrise" and "sunset" review procedures and by eliminating needless regulatory delay as well as other actions.

#### *1. Protect Individual Liberty Through Meaningful Sunrise and Sunset Review*

A clear line must be drawn between the powers of local governments and the sphere of individual autonomy needed for economic prosperity and human dignity. To borrow from Professor Barnett, the powers of the state and its subdivisions were meant to be islands of restraint floating in a sea of liberty. And when the islands begin to squeeze out the sea, communities need an effective means of dredging the silt of needless and paternalistic regulation.

The policy model for this framework already exists in the form of sunrise and sunset review laws. These laws aim to restrict the promulgation of laws to those that are genuinely "required" for public health, safety or welfare. Such laws typically require advocates to prepare a detailed report to a legislative committee showing, among other things, that a real threat to public health, safety or welfare exists and that the proposed law is more effective in addressing that threat than less restrictive regulatory, common-law or market-based alternatives. In the case of sunrise laws, the failure to make this demonstration prevents the proposed law from moving out of committee. In

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the case of sunset laws, an existing law automatically expires unless a similar demonstration is made to the satisfaction of a sunset review committee.

## 2. Ensure Prompt Regulatory Review

Freedom of action is impossible and economic development is hobbled when the government unreasonably delays furnishing necessary regulatory approvals. That is why more than half of the states in the nation have enacted statutes requiring or setting firm deadlines for regulatory approval, most of which give automatic approval to a regulatory application if that deadline is missed. In Minnesota, for example, agencies and local governments have 60 days to approve or deny land development applications—otherwise, the application is automatically approved. In 1996, Arizona mandated that state agencies (defined to exclude local governments) promulgate rules establishing deadlines for regulatory approvals or denials, encompassing environmental, business and occupational regulations. This has resulted in mandated approval or denial periods for permitting and licensing of all kinds ranging from seven to 180 days.

The benefit from these reforms has been enhanced certainty in business planning and greater responsiveness by regulatory agencies. The same benefits could accrue at the local level. Developers in the Phoenix area, for example, routinely allow “one year to work through city regulatory processes when the land is already appropriately zoned.” If that process “can be whittled down to five or six months,” the prospects for redeveloping neglected neighborhoods will be greatly enhanced. Moreover, setting strict deadlines for regulatory approval of all types of licenses and permits is clearly feasible — a recent review of the performance of 60 Arizona state administrative agencies in nearly every regulatory field indicated that 99.5 percent of 852,382 applications were processed within established deadlines. Accordingly, implementing the right to a presumption of liberty should require prompt regulatory approval from local governments with automatic approval in the event of unreasonable processing delay.

## PRINCIPLE NO. 2

### *Use and Enjoy Property*

Property owners should have the right to use and develop their properties as they see fit so long as they do not violate the rights of others. No governmental action should restrict the uses or deprive anyone of their property unless such action is genuinely required to prevent, remedy or punish a tangible injury to another.

### 3. Protect Property Through Meaningful Sunrise and Sunset Review

The right to a presumption of liberty should apply to the enjoyment of property as much as it applies to freedom of action in general. All existing property regulations should be subject to sunset review as well as sunrise scrutiny for all subsequently enacted regulations.

Advocates of regulation at every level of government should be required to marshal evidence demonstrating that public health, safety or welfare will be protected by any new land-use regulation they propose.

### 4. Protect Property by Vesting Rights at Purchase.

The doctrine of vesting determines when a protected property right is acquired. Only after an interest in property has “vested” does such an interest become the sort of property right that local governments must respect.

Generally, a certain degree of pre-investment of time, money and regulatory approval with respect to the property is required before one’s interest is deemed to vest sufficiently to justify developing property. But the precise degree is difficult to ascertain.

Some states have statutes that identify clearly the event that causes vesting of property rights. Under Colorado law, property rights vest immediately upon the approval of a site-specific development plan. New Hampshire, likewise, deems property rights to existing lawful land uses vested “for a period of four years from the date of approval of the plat or site plan.”

Such laws constitute a step in the right direction, but they still invite arbitrary and abusive conduct by local governments

which still retain control over plat or plan approval.

For these reasons, the mere act of purchasing property usually signifies a real connection between the owner and the lawful uses of the property. Therefore, the Local Liberty Charter proposes a rule of vesting that preserves — or “locks in” — all lawful property uses under existing laws for the owner, purchaser and all subsequent transferees, subject only to future regulations that survive sunrise and sunset review.

#### 5. Authorize Infill Development Without Regulatory Micromanagement

One of the most comprehensive and often ineffectual local regulations is zoning. In principle, zoning is intended to prescribe land development into the future, ideally based on compatible uses that avoid disputes over nuisances. In reality, it promotes an inefficient and often debilitating mismatch between legal uses embedded in the zoning map and real-world market demand for land. Zoning inevitably lags on-the-ground economic reality, resulting in what *the Arizona Republic* has said is “a huge disconnect” between zoning codes and desired development. But the answer to bad planning is not more planning.

Tweaking traditional zoning with yet more “visioning” by planners will not overcome the political and economic dynamics that undermine the coherence and relevance of zoning laws. A better solution is to create legal frameworks that bypass regulatory micromanagement as much as possible.

One way to do so is to implement a freedom-friendly zoning overlay similar to what was successfully employed by Curt Pringle, mayor of Anaheim, California. Mayor Pringle targeted a variety of areas in town for redevelopment. Rather than use extensive planning, subsidies or eminent domain, his staff devised a zoning overlay based on the physical infrastructure capacity of the area and the principle of allowing the market to operate freely within very basic development constraints.

For example, in one neighborhood, the city determined that the existing sewer and roadways could support 9,500 housing units. The city then created a zoning

### A Municipal Government Scorecard

	YES	NO
1. Provide sunrise and sunset review of laws to protect individual liberty?		
2. Ensure prompt regulatory review?		
3. Provide sunrise and sunset review to protect private property?		
4. Vest property rights at purchase?		
5. Authorize infill development without regulatory micromanagement?		
6. Allow privately enforced covenants in place of zoning?		
7. Benchmark services on core outcomes?		
8. Provide law-enforcement performance transparency?		
9. Offer overtime wage pools to provide incentives for good performance?		
10. Remedy poor performance with tax credits and managed competition?		
11. Restrict the business of local government to government?		
12. Mandate managed competition?		
13. Restrict government spending growth to an objective formula?		
14. Provide special-interest subsidies limited through sunrise and sunset review?		
15. Use alternative dispute resolution?		
16. Enforce “three strikes and you’re out” for public officials?		
17. Kick the federal funding habit?		
18. Demand local coordination from federal agencies?		
19. Set deadlines for public records requests?		
20. Require governmental action to cite legal authority?		
21. Require jurisdictional mapping?		
22. Post all financial transactions online?		
23. Automatically disclose lobbying and regulatory history?		
24. Post performance benchmarks online?		
25. Make “None of the Above” binding ballot options available?		
26. Dissolve unaccountable special districts?		
27. Establish mandatory bankruptcy filing procedures?		



*Abandoning zoning altogether in favor of a more decentralized, market-friendly system such as the one found in Houston makes sense.*

overlay that allowed mixed commercial and residential uses, allocating building permits on a first-come, first-served basis for 9,500 housing units. Without the city micromanaging the location or mix of residential or commercial units, the neighborhoods covered by the overlay exploded with compatible and synergistic economic activity.

#### 6. Replace Zoning with Privately Enforced Restrictive Covenants

The unvarnished truth is that just about any zoning law functions as a vehicle for politics to dominate private property rights. This is because the primary criteria for zoning decisions typically boil down to: "How many people favor and how many oppose? Who supports the zoning of the site and who objects to it?" Not surprisingly, studies of Philadelphia, Lexington, Chicago, New York and Los Angeles have shown "control of property through zoning is more chaotic than it is orderly."

While politically difficult, abandoning zoning altogether in favor of a more decentralized, market-friendly system such as the one found in Houston makes sense. Houston's land uses are coordinated almost entirely by private easements, covenants and contractual restrictions, which arose through voluntary contract and are administered by homeowners' associations. A comparative study of Houston's private land-use arrangements found that markets tend to separate uses even without zoning. Businesses tend to cluster around specific areas that favor attracting customers. Meanwhile, single-family residential development tends to avoid commercial areas. High-density apartments tend to locate in still other places.

Houston is living evidence that planning bureaucracies and zoning laws are unnecessary to coordinate compatible property uses. Making a transition away from zoning, however, requires a process that is sensitive to existing reasonable expectations. It should involve essentially two phases: 1) sunset review of existing zoning restrictions, and 2) legislative transformation of surviving zoning restrictions into private restrictive

covenants to ensure current property owners are protected from potential nuisances created by new development.

This flexible, decentralized system would shield property rights from meddling by local politicians and bureaucrats. It would also preserve the best elements of zoning — certainty over what uses are permitted — while allowing property uses to evolve freely with market supply and demand, consistent with a reasonable degree of protection for expectations that arose based on the original zoning law.

### PRINCIPLE NO. 3

#### *Protect Personal Safety*

Protecting citizens from crime is the core function of government; exercising the rights to life, liberty and property requires peace and order.

#### 7. Benchmark on Core Outcomes

Successful crime-fighters emphasize that law-enforcement reform must be institutionalized to ensure that it is not simply personality driven. The first step to properly prioritize policing for violent and property crimes is to ensure that local governments set crime-reduction and service-quality goals for their police departments.

"Performance benchmarking" has been standard practice for most federal, state and local departments since the passage of the Government Performance and Results Act of 1993. Uniform Crime Report (UCR) statistics, which can help local governments set performance standards based on similar localities around the country, have been maintained by the U.S. Federal Bureau of Investigation for nearly 80 years. Phoenix, for example, has been tracking and publishing local crime statistics based on UCR statistics for several years. And New York City is famous for its achievements in reducing crime beginning in the mid-1990s, using its CompStat system, which focused on core crime rates. The question is not whether to benchmark public safety services, but how.

Benchmarks should be focused on a few core outcomes of good police service. Police departments should adopt performance benchmarking that targets



*"A Constitution of government once changed from freedom, can never be restored. Liberty, once lost, is lost forever."*  
(John Adams)

desired crime rates, crime clearance rates (both arrest-to-charge and arrest-to-conviction), public complaint rates and response times. Only two performance standards are necessary. The first should simply require benchmarked statistics to improve every month. The second standard should set an ultimate statistical goal for each benchmarked statistic within a designated period.

#### 8. Law Enforcement Transparency

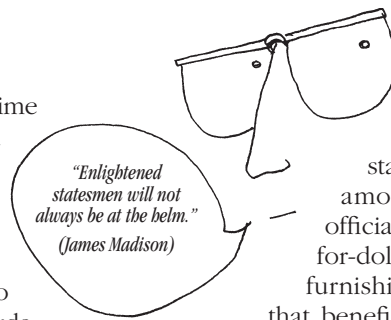
Freedom from crime requires more than measurement — it also requires both data transparency and consequences. Therefore, the right to transparency is an integral component of ensuring the right to freedom from crime.

Once established, departmental benchmarked statistics and performance standards, including the status of compliance, should be published online for easy public viewing. Additionally, an independent expert should audit data gathering quarterly. And to ensure that there are consequences for meeting these transparent performance benchmarks, the law should also furnish positive and negative performance incentives.

#### 9. Improve Performance with an Overtime Pool

As a positive incentive to motivate performance, the former mayor of Dallas, Steve Bartlett, has recommended creating a special “overtime pool,” perhaps using funds budgeted for media events like gun buy-back programs. This pool could then be used to pay overtime to officers who volunteer to cover benchmark-lagging neighborhoods and precincts — as determined by geographical information system mapping. A particular officer's access to such overtime privileges should be based on monthly personal performance statistics plus a requirement that the officer have no complaints against him for misconduct by any member of the public during the preceding month.

#### 10. Promote Efficiency with Tax Credits and Managed Competition



If a police department fails to fulfill its performance standards for an unreasonable amount of time, then elected officials should give citizens dollar-for-dollar property tax credits for furnishing private-security services that benefit the public. Elected officials should also be required to invite bids from nearby or overlapping local governments to assume its local law-enforcement responsibilities. This would crucially attach real consequences to bad performance.

The objective of a police department is the maximum degree of personal and property security that is consistent with a free society — policing is not an end in itself. The only way to reach any objective on a consistent basis is to pursue it consciously as a goal.

### PRINCIPLE NO. 4

#### *Fiscally Responsible Government*

Citizens are entitled to a government that is no larger than necessary, fiscally accountable, sound and disciplined and not the cause of intergenerational conflict.

#### 11. Restrict the Business of Local Government to Government

Long-term fiscal viability requires maximizing the extent to which local government budgets are insulated from political pressures to live beyond fiscal means. For this reason, one powerful yet simple tool for implementing the right to fiscal responsibility is to restrict the powers of local government to core functions. Restricting local governments to nonproprietary, genuinely governmental functions would preclude many unnecessary and expensive exercises of government power.

#### 12. Mandate “Managed Competition”

Presaging the privatization movement, Phoenix is credited with developing the policy of managed competition in 1978, which pioneered competitive bidding for city services by existing departments and private contractors. Indianapolis raised the approach to a form of strategic-management art under former mayor Stephen Goldsmith in the mid-1990s. As explained by former Phoenix Public Works

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Director Ron Jensen, "The term 'Managed Competition' describes a process of public-private competition that is managed, in that every step to be followed is clearly defined and the roles of all participants in the process are understood." Managed competition involves competitively contracting out services performed by departments of local government.

Unlike privatization, managed competition encourages public entities to participate in the contract-bidding process. Managed competition thus deflects the criticism that privatization squanders existing human capital, resources and infrastructure, and makes competitive bidding more politically palatable to constituencies employed by local government. It also has the added benefit of rendering political controversies over local governmental consolidation irrelevant. By allowing any local government to compete to provide public services for any other local government, the most efficient provider of such services — whether it be the adjacent city or the overlapping county — will come to dominate the area based on merit rather than by jurisdictional fiat.

Studies show that "if properly implemented, managed competition or competitive sourcing, as it is also known, can invigorate service delivery, enhance the general perception of public service and translate into annual savings in the range of 10 to 30 percent." For example, Charlotte, North Carolina's collection costs per ton of garbage "were 35 percent less than the statewide average" in 2007 after implementing managed competition. This mirrors the success of Phoenix's use of managed competition for solid-waste collection, which resulted in a 38-percent decline in inflation-adjusted costs over the first 15 years of the program. In Indianapolis, the savings to taxpayers from an aggressive policy of managed competition have been estimated at \$450 million over 10 years. This track record recently led the mayor of San Diego to announce in May 2008 that the city would be contracting out at least 11 city functions pursuant to the city's managed-competition ordinance.

In 2005, 90,000 residents of Sandy Springs, Georgia, voted to incorporate and also "to contract nearly all government

services" after first carefully scrutinizing every "traditional" service or function. Eventually, they entered into a \$32-million contract with Operations Management International Inc. (OMI), a unit of engineering titan CH2M-Hill Cos., which agreed to be responsible for overseeing and managing "the day-to-day operations of the city," including "virtually all city functions outside of fire, police and emergency-management services." The cost of this contract was "just above half" what residents previously paid to the county for public services when Sandy Springs was unincorporated.

### *13. Restrict Spending to an Objective Formula without Loopholes*

The growth of local expenditures should be constrained by an objective formula based on prior-year expenditures adjusted by inflation and population growth, with no exceptions for special districts and no simple-majority vote overrides. In essence, a formula equivalent to that of Colorado's statewide Taxpayer Bill of Rights (TABOR) should be adopted by local governments.

Although controversial, the TABOR formula has succeeded in responsibly restricting the size and scope of government. Colorado's TABOR reform, for example, has reduced statewide government spending by \$3.2 billion through 2003. Moreover, recent studies indicate that levels of poverty declined dramatically in Colorado during the 1990s — a time when TABOR had its greatest impact on levels of government spending. Therefore, TABOR reforms may even have an indirect role in reducing poverty — perhaps by offering incentives for more-efficient uses of existing resources by government agencies or by minimizing the extent to which government crowds out the more-productive private sector.

The controversies that have arisen from Colorado's TABOR can be resolved simply by tweaking the standard formula. For example, a three-year moving average for the inflation rate can help avoid unmanageable dips in revenues that result from economic cycles. The formula could also be augmented with language providing that the year-to-year rate of growth for municipal expenditures overall



shall never exceed the year-to-year rate of growth for law-enforcement services aimed at UCR “part 1” crimes (violent and property crimes). In this way, spending on popular programs will never crowd out spending on core governmental functions.

## PRINCIPLE NO. 5

### *Accountability*

Much of the power of local government resides in unelected officials. Sometimes, bureaucrats use their regulatory authority to arbitrarily limit economic opportunity and liberty. These public officials need to understand more clearly that they serve the people and that the people have effective and direct recourse against them for mismanagement and wrongdoing. This can be accomplished by strengthening public accountability at the local level.

#### *14. Limit Favoritism*

Whenever an exercise of taxing, borrowing or spending authority is proposed that is not directly tied to performing a core governmental function, a determination should be made based on a documented and publicly disclosed analysis as to whether a specific individual, entity or class of individuals or entities, distinct from the general public, is being subsidized. If so, then the exercise of such authority should be barred as an instance of fiscal favoritism. Speculative indirect economic benefits to the general public from the exercise of taxing, borrowing or spending authority should not be considered in deciding whether to classify the exercise of such authority as a subsidy. This review process, if observed by a local government’s elected officials and enforced non-deferentially by the judiciary, should stop fiscal favoritism and enhance the ability of local government to secure the right to fiscal responsibility.

#### *15. Adopt Alternative Dispute Resolution*

Local governments are not meant to have all of the legalistic “bells and whistles” of state or federal government. There are speed and efficiency needs unique to local government. Unfortunately, many local officials have tended to adopt policies that concentrate power at the expense of personal liberty, at times inviting abuse

by local regulators and bureaucrats. Alternative dispute resolution, or ADR, could provide an inexpensive and effective check on concentrated local power.

There are typically two types of ADR: mediation and arbitration. In mediation, a mediator facilitates negotiation toward an agreement on an acceptable resolution of the dispute; in the case of binding mediation, the mediator reaches a decision that best accommodates the interests of both parties in the dispute. In arbitration, an arbitrator hears from both sides and reaches a decision resolving their dispute based on informally presented evidence and testimony.

Either type of ADR is much less costly than litigation, and both types can resolve disputes in a fraction of the time typically consumed by litigation. Accordingly, it is recommended that if non-legislative functions are to be performed by elected officials (who also hold legislative power), or if quasi-judicial functions are to be performed by administrative officials (who also hold executive power), then in the event of a dispute, the organic law should diffuse such concentrated power by giving disaffected citizens the legal option of demanding ADR.

#### *16. Three Strikes and You’re Out*

The general rule for government employees at every level of government is that they are shielded from personal accountability for nearly all of their interactions with the public. They are shielded by various doctrines of tort immunity for their wrongdoing. They are shielded from termination for poor performance by civil service protections through a myriad of workplace rules, ironclad job protections and strict salary schedules that reward seniority rather than productivity. As a result, ordinary citizens are forced to submit to unaccountable local bureaucratic decision-making. If citizens choose to fight back, they can spend hundreds of thousands of dollars in attorney fees simply to exercise their basic rights peaceably and productively.

A “Three Strikes and You’re Out” rule would stipulate that nonelected public officials must be immediately dismissed from their employment if on three or more occasions during their employment

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*The addiction to federal money inflates demand for unsustainable levels of government services, substitutes central planning for local programs and distracts local government from its core functions.*

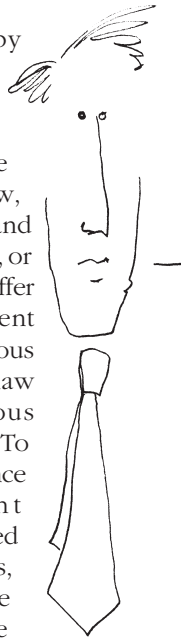
they are found by internal review, judicial decision or alternative dispute resolution to have 1) violated the law, including the state and federal constitutions, or 2) caused citizens to suffer substantial detriment based upon erroneous interpretations of law or other erroneous actions or omissions. To ensure the performance of government employees is measured based on outcomes, not intentions, the standard should be basic "causation in fact," not whether the underlying conduct had been wrongful.

The resulting incentive structure would likely discourage public officials from engaging in arbitrary enforcement behavior. Local governments would also have clear legal authority to trim their workforces of employees who fail to uphold the highest standards of public conduct. Combined with the automatic approval process discussed in connection with the right to a presumption of liberty, local public officials could not simply ignore their regulatory decision-making duties in the hope that difficult questions would go away. Even if they did, adversely affected citizens would have legal standing to enforce their right to accountability in a court of law or through alternative dispute resolution.

## PRINCIPLE NO. 6

### *Genuine Local Sovereignty*

State and local government sovereignty is a bedrock concept of Federalism, the principle of governance that delegates certain powers to the federal government and retains others to the state governments. These independent duties and responsibilities have been obscured by active federal involvement in local affairs, primarily through federal grants in aid. The addiction to federal money inflates demand for unsustainable levels of government services, substitutes central



*"Madness is to hold an erroneous perception and argue perfectly from it."  
(Voltaire)*

planning for local programs and distracts local government from its core functions. Cutting the federal purse strings will be essential to preserving the autonomy and efficiency of municipal governments.

### *17. Kick the Federal Funding Habit*

"Free" federal money comes at a price. The cost of federal money is federal mandates. These mandates are made with little regard to local conditions; they arise from one-size-fits-all legislative plans crafted from a national perspective, which tend to be less efficient than those crafted at the statewide or local level. Such federal programs typically stoke local demand for more government than would otherwise be desired in states such as Indiana.

This not-so-free federal money is a Trojan horse to more than just mandates; it invites behavior by politicians and constituents that undermines fiscal responsibility and good government. Federal funding motivates politicians to maintain and grow the size and scope of local government for fear of being blamed for refusing "free money" and letting other people spend local federal tax money. It also encourages citizens to demand and expect more local government services because they are able to consume government services at a rate they otherwise could not afford. Even those who refuse to get hooked must confront the fact that the money extracted from them through federal taxation will now go to a distant municipality or state, rather than be returned home. Thus, when confronted with a funded federal program, coupled with mandates, there is only a choice between two evils for local governments and their constituents — and a very difficult one at that. Local governments should choose the lesser evil by not applying for or accepting federal money to which mandates attach.

### *18. Demand Local Coordination From Federal Agencies*

From counties down to water districts, any local government with existing authority over resource planning, resource

management, zoning or other land-use authority likely has the legal right to demand coordination of federal regulations with its local plans. And when federal agencies have failed to heed the demand for local coordination, local governments have successfully sued them in federal court. Moreover, local governments have an impressive track record of moderating or even derailing the implementation of onerous federal regulations without litigation simply by demanding coordination or having the reputation of demanding coordination.

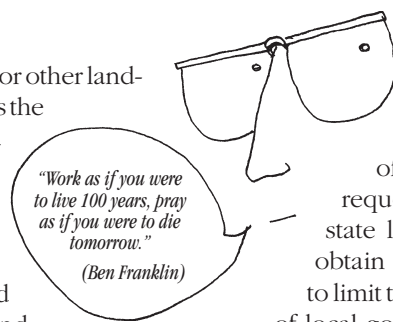
Former Assistant U.S. Attorney Fred Kelly Grant, president of American Stewards of Liberty, has developed the “coordination approach,” which is a plan of action for local public officials to fight back against overreaching federal regulations. Grant’s coordination approach involves essentially two steps: 1) developing a freedom-friendly local land-use or resource-management plan, and 2) demanding that federal agencies coordinate their land-use regulations with the local land-use or resource-management plan.

The plan is based on Grant’s discovery that nearly all federal laws regulating land uses contain a provision requiring “coordination” or “cooperation” between federal agencies and local governments. This requirement empowers local governments to demand that federal agencies implement regulations affecting local resources and land uses consistently with existing local plans and policies. The federal laws requiring coordination include the Federal Land Policy and Management Act, the National Forest Management Act, the National Environmental Policy Act, the Endangered Species Act, the Wild and Scenic River Act, the Clean Air Act, the Clean Water Act and the Soil and Water Resources Conservation Act.

## PRINCIPLE NO. 7

### *Transparency*

Transparency is perhaps the single-most important feature of any government, both to prevent corruption and also simply



to make the rule of law and accountability possible.

But given the culture of local governmental secrecy, requests for public records under state law are terribly inadequate to obtain the basic information needed to limit the excesses and transgressions of local government.

#### *19. Set a Deadline for Responding to Records Requests*

At the very least, specific deadlines should be established for local governmental compliance with public records requests. Based on compliance deadlines for similar freedom of information laws around the country, one researcher contends that local governments should be required to furnish a written response to a public records request in not more than “three-to-five” days. That response should either furnish complete compliance with the request or specify a reasonable deadline for complete compliance (not in excess of 14 days). The written response should also address requests specifically and index appropriate materials.

#### *20. Require Governmental Action to Cite Authority*

The right to transparency should be implemented proactively — not just reactively to records requests. Citizens should receive immediate and verifiable assurance that local governmental bodies are acting within the scope and limits of their power.

Every proposed or new law, rule or resolution enacted by any local governmental entity should be accompanied by a full disclosure of all authorizing authorities for the same, by specific legal citation. This recommendation is analogous to the “Enumerated Powers Act,” which has been proposed repeatedly “to require Congress to specify the source of authority under the United States Constitution for the enactment of laws.” Likewise, every administrative or quasi-judicial action affecting the legal rights of a citizen should specifically cite sufficient supporting legal authority to justify the action. For example, responses to records requests under the state public-records law should justify any nonproduction with

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*In Brazil, municipal governments were made subject to random audits. Reports detailing the results of the audits were then compiled, posted online and disclosed to the media.*

specific reference to the law that justifies such action.

#### 21. Require Jurisdictional Mapping

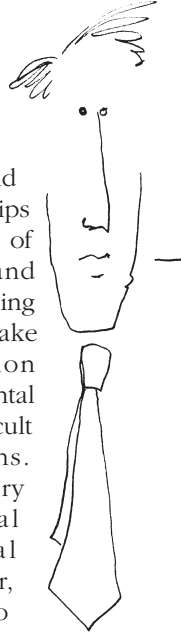
The complexity and opacity of the relationships between the multitude of local governments and their distinct or overlapping responsibilities may make gathering information about local governmental issues especially difficult for ordinary citizens. For this reason, every local governmental entity and special districts in particular, should be required to publicly disclose their jurisdictional boundaries online together with a summary of their powers and responsibilities, in a unified graphical interface if possible, enabling citizens to search a designated address to determine which local government is governing them.

#### 22. Post All Financial Transactions Online

Much can be learned by a recent push for transparency in Brazil. Beginning in May 2003, municipal governments were made subject to random audits. Reports detailing the results of the audits were then compiled, posted online and disclosed to the media. This resulted in the exposure of graft, waste and corruption on a massive scale. All local government finances should be publicly posted online in real time and on an easily navigable website, as the revenues are received and the checks are cut, in those jurisdictions in which transactions are automatically logged in electronic bookkeeping software. In those jurisdictions where financial transactions are not automatically logged, then government finances should be accessible online based on no fewer than quarterly independent audits.

#### 23. Trigger Automatic Disclosure of Lobbying and Regulatory History

Public officials will undoubtedly treat citizens more consistently and with less



favoritism if they know their official actions can and will easily be scrutinized by the public. For this reason, certain public records should be automatically disclosed

*"Posterity: You will never know how much it has cost my generation to preserve your freedom. I hope you will make good use of it."  
(John Adams)*

when triggered by significant governmental actions. Any proposed law, for example, should be accompanied by the automatic disclosure of every related prior communication with public

officials that had been received or transmitted via publicly owned property, such as through a public official's email account. This would help ordinary citizens counteract the natural advantage held by lobbyists. Additionally, detailed information about the processing status of zoning, permitting or licensing applications should be available online in real time using in-house tracking software, such as PermitWorks. Lastly, any denial of regulatory approval should be accompanied by an automatic printout of all regulatory approvals or denials under the same ordinance or code provision within the past year.

#### 24. Post Performance Benchmarking Online

Baltimore's increasingly emulated CitiStat program demonstrates that aggressive computerized performance measurement and benchmarking will result in significant efficiency gains by local government. There is no longer any technological reason to conceal such programs from real-time public scrutiny. The status of performance benchmarking of local governmental services—especially those services that are contracted based on managed competition—should be online and updated as close to a real-time basis as is feasible.

Thanks to Mayor Bloomberg of New York City, the model for transparency in benchmarking now exists. The city's new transparency website, called the "Citywide Performance Reporting Tool," was activated in February 2008 and demonstrates that city-service performance can be made understandable and transparent enough for ordinary citizens to monitor their governments



and assess their performance. When fully completed, the website promises citizens the ability to use an interactive graphical interface to review performance measures for every city agency and service.

Finally, a citizen-input scorecard of local governmental performance, including rankings for specific government officials, should be maintained online. Such scorecards are entirely feasible. A similar scorecard has been used in Bangalore, India, resulting “in firings of officials, improved service delivery and a decreased incidence of bribery.” Conscientious American voters and taxpayers should have at least as much transparency in government as the citizens of Bangalore.

## PRINCIPLE NO. 8

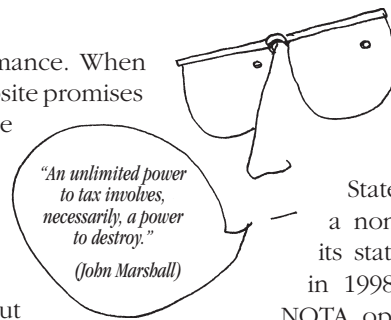
### *The Right to Reconstitute Local Government*

Local politics can become wedded to bad government. But the proper response is not necessarily to vote with one’s feet and move to a locality that is better suited to freedom and responsibility. Mass exodus from abusive local governments may have the unintended consequence of entrenching abusive government by rendering it relatively immune to electoral accountability. A better response is to ensure that robust electoral tools exist to “reboot” local government gone wrong.

#### *25. Provide a Binding “None of the Above” Ballot Option*

Before unknown, power-brokered candidates are foisted upon the public, the public should have the right to reject the offering. Therefore, the first tool to reboot government should involve enacting a civil right to a binding “none of the above” (NOTA) option in local elections, whereby if NOTA receives more votes than any other candidate, a special election must be called, disqualifying the original candidates and requiring new candidates to run for the office.

This idea is not unprecedented. As recently as 2007, a bill was introduced



in the Massachusetts legislature to provide for a binding NOTA ballot option. Moreover, the State of Nevada has long listed a nonbinding NOTA option on its statewide office ballots. Also, in 1998, Puerto Rico included a NOTA option on a referendum for statehood — which received more votes than any other option. These examples illustrate the political feasibility of implementing a NOTA voting option. Nowhere would it make more sense to do so than in local governmental elections, which would provide perfect testing grounds to evaluate its effectiveness in rendering representative government more responsive to the citizenry.

#### *26. Dissolve Unaccountable Special Districts*

The multiplicity of special districts (e.g., park districts, water districts, health districts, etc.) obscures the true status of municipal finance and regulation and is obviously confusing to the general public, undermining the goals of governmental transparency and accountability. Not surprisingly, the few available studies on special districts indicate that the electorate generally does not meaningfully participate in special-district elections, or even know what special districts do. This weakens democratic governance and weakens accountability because public officials can abuse the system when they do not fear electoral consequences.

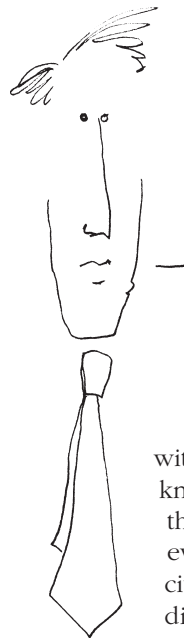
Local governance can be simplified through a straightforward electoral test for special districts. If fewer than 10 percent of the qualified electorate vote in a special-district election, the results should be discarded and a special election should be held. If this phenomenon is repeated during the special election, then the district should be dissolved and its functions transferred to its organizing political entity.

#### *27. Establish Objective Triggers for Mandatory Bankruptcy Filing*

Local governments should be required to file bankruptcy as a ministerial matter when there are certain triggering events

*The first tool to reboot government should involve enacting a civil right to a binding “none of the above” (NOTA) option in local elections.*

*In Indiana, you can choose to follow the path of least resistance — typically raising taxes and expanding government — or a more creative path toward reducing the size of local government, creating more direct accountability, promoting personal liberty and encouraging innovation and entrepreneurship.*



*"To this day, America is still the abiding alternative to tyranny. That is our purpose in the world — nothing more and nothing less."  
(Reagan)*

evidencing municipal insolvency. Chapter 9 of the U.S. Bankruptcy Code has long applied to subdivisions of states, including local governments. It enables a local government to renegotiate obligations, restructure finances, cease services and contract out departments. Decades of legal precedent interpreting and applying Chapter 9, which arise from a multitude of fact patterns, already exist. Such precedent provides well-settled guidance for local governments, courts and trustees in bankruptcy, ensuring that enacting the proposed reform would involve far less uncertainty than would result from an entirely new statutory structure.

And requiring cities to file bankruptcy when they are insolvent would be a powerful tool to refocus a local government on good governance — if only because it could stiffen the backs of politicians in negotiating concessions from interest groups when finances are in disarray. When this right is coupled with real-time financial transparency, knowledge would indeed be power to the people. If public officials ignore events requiring bankruptcy filing, the citizenry could enforce the obligation directly and expeditiously through

mandamus, which is a lawsuit seeking a court order that would command the local public officials to file. This reform would be similar to Michigan's Local Government Fiscal Responsibility Act of 1990, which authorizes the State Treasurer to appoint an Emergency Financial Manager (EFM) with wide-ranging authority to restructure local governmental finances. Under the Act, an EFM appointment is made following a preliminary review triggered by a number of statutory grounds deemed to evidence "financial distress," including underfunding of pensions or inaccurate accounting. The Act specifically authorizes citizens to request the appointment of an EFM through the filing of a petition.

### Conclusion

With great challenges come great opportunities. Now is one of those moments in history where citizens and public officials have the opportunity to remake local government. In Indiana, you can choose to follow the path of least resistance — typically raising taxes and expanding government — or a more creative path toward reducing the size of local government, creating more direct accountability, promoting personal liberty and encouraging innovation and entrepreneurship. The recommendations in this article have hopefully fleshed out a starting point and outlined a potential roadmap for those interested in expanding liberty at the local level. Q

### The Chamber's Call to Arms

As a nation, we face major policy challenges — but none greater or more important than reviving the economy, restoring the seven million jobs lost to the current recession, and creating the 13 million more jobs that will be needed over the next decade. A recent survey by the U.S. Chamber finds that while people support free enterprise, they do not clearly see how it benefits them as individuals. Respondents also expressed concern about the future of the free-enterprise system and believe that the private sector will and should take the lead in the nation's number-one challenge — job creation. At the U.S. Chamber, we believe that the values of individual initiative, hard work, freedom of choice, and the free exchange of trade, capital and ideas can lead America back to prosperity. Only free enterprise will create the innovation, the opportunities and the jobs our nation needs.

— Thomas Donohue, president of the U.S. Chamber of Commerce, Oct. 14, 2009

## THE MAGIC OF ASSET DIVESTITURE

*One of the nation's best examples can be found in Indianapolis.*

by ANTHONY RANDAZZO

Cities throughout Indiana and the U.S. are reeling from the economic pain of the recession. Indeed, at the end of 2008, the Indiana League of Cities reported that more than half of the state's municipalities felt it would be harder to manage their budgets in 2009. While state-specific numbers haven't been released, a survey by the National League of Cities reports that 88 percent of the nation's city finance officers believe they are less able to meet their fiscal needs in 2009. Spending is expected to rise by 2.5 percent despite the recession as revenues are either flat or decline.

It's unlikely that Indiana cities will fare much better than their national peers. Cities large and small are scrambling for ways to balance their books. The key is to bring their books into balance in a way that creates a solid financial foundation for effective long-term management. Critical to meeting this goal will be for cities to re-assess their core values and priorities, and bring their programs in line with those goals. And asset divestiture is a critical component of any fiscally responsible strategy.

In the business world, financially stressed firms often divest underperforming assets and outsource non-core functions to strategically refocus their resources on core functions. Often, this strategy revitalizes these divisions or subsidiaries, turning a financial liability into an asset. Divisions or subsidiaries that were poorly run often receive a new lease on life under new, leaner and more-focused management. The one-time windfall from the sale permits the seller to pay down debt or generate capital for other investments in core functions without having to engage in new borrowing. The same

lessons are equally applicable to local government.

As local governments struggle to do more with less, selling or leasing underutilized or unneeded land and assets (buildings, infrastructure, etc.) — as well as revenue-generating assets or enterprises that could be more efficiently run under private-sector operation (such as airports, water systems and golf courses) — become attractive for a variety of reasons.

- First, asset sales and leases typically result in a lump-sum payment of cash, providing much-needed resources to struggling budgets. For example, Indiana received an upfront \$3.8-billion payment for a 75-year lease of the Indiana Toll Road. The entire payment was placed in an interest-bearing account (earning over \$300 million in interest alone in the first 18 months) and dedicated entirely to transportation.

- Second, divesting or leasing publicly owned real estate increases the tax base. Public land and buildings do not generate property taxes nor do they typically produce sales and income taxes. Moreover, in constrained real-estate markets with limited developable land, government-owned property represents a desperately needed source of capital for private economic activity.

- Third, offloading assets that are deemed to be inefficiently owned by the government will result in lower maintenance and operations costs. This frees up cash for other priorities and is a more fiscally responsible use of taxpayer money.

- Finally, private ownership can stimulate innovation that capitalizes on the development of new technology. Private firms are free to make use of innovative development techniques that are efficient

*Eighty-eight percent of the nation's city finance officers believe they are less able to meet their fiscal needs in 2009. Spending is expected to rise by 2.5 percent despite the recession as revenues are either flat or decline.*

Source: National League of Cities



Anthony Randazzo is director of economic research for Reason Foundation, <http://www.reason.org>, which published the original version of this article, adapted here for an Indiana readership.

*The nonprofit Central Park Conservancy has raised more than \$100 million for New York City's Central Park since its founding in 1980, taking over the care of trees, lawns and plants, and providing \$10.5 million of the park's \$15.9 million in operating costs.*

and cost-effective, avoiding cumbersome, time-consuming public-bidding and procurement regulations.

Government asset sales and leases can take a variety of forms. In some cases, governments sell real property outright to private owners. Often, property is sold "as is" or in a legally "entitled" state (e.g., secured necessary zoning approval) to allow for its productive use by the private sector. In other cases, transactions are established as a long-term lease agreement or concession, particularly for revenue-generating enterprises like golf courses, toll roads or parking facilities. In yet other cases, such as government-owned buildings, public agencies can use sale-leasebacks where the private sector purchases the property for a fixed price and agrees to lease back the facility to the government entity for an agreed-upon period of time. Importantly, the government agency can receive a lump-sum cash payment in all three scenarios.

Government agencies have historically underestimated the potential fiscal benefit of asset divestiture or outsourcing. In today's economic environment, however, local government policymakers will need to think outside the box and find "diamonds in the rough."

Airports, parks and vehicle fleet management provide three potential diamonds often overlooked by local officials.

#### *Airports*

Airports are often the largest single land use in a city, yet they are generally not part of the property-tax base because they are owned and operated by public agencies even though they earn revenue. As for-profit enterprises, these financial liabilities can be turned into substantial property-tax revenue generators. The airport operations themselves also are a prime opportunity for engaging the benefits of the private sector. The total impact of these revenue streams can be quite large.



**HOW WE RATE** — Indiana dropped four places in the annual Forbes ranking. Of special concern are the 49th place in "Growth Prospects," the 43rd in "Labor Rank" and the 47th in "Economic Climate."

For example, on September 30, 2008, Chicago announced a consortium composed of YVR Airport Services Ltd., Citi Infrastructure Investors and John Hancock Life Insurance Co., would be granted a 99-year lease of Midway Airport, submitting a winning bid of \$2.5 billion for the contract operations.

Under the terms of the deal, the airlines would get guaranteed rates and charges for at least the first 25 years of the lease, indexed to the rate of inflation. The airlines would also retain some of their traditional veto power over capital projects to be funded by airline charges, but would have no control over projects funded by non-airline revenue.

#### *Parks and Recreation*

Private management and maintenance of parks that are free and open to all is not extraordinary. Nearly 40 percent of cities in America contract out for park maintenance services. There are various types of public-private partnerships that can be established for handing off park and recreation-center management to private firms. Typical options for tapping the private sector for parks and recreation include contracting out just park maintenance, leasing concessions in a long-term or user fee/rate schedule agreement, establishing a business-investment district to fund park operations or divesting the whole park to a non-profit manager.

The nation's most famous park, Central Park, New York City, is run by a non-profit



organization that spearheaded an effort to clean it up once it was spun off from city government. The nonprofit Central Park Conservancy has raised more than \$100 million for New York City's Central Park since its founding in 1980, taking over the care of trees, lawns and plants, and providing \$10.5 million of the park's \$15.9 million in operating costs.

By 1989, 72 percent of Central Park users said the park felt safer after the Conservancy got involved. Crime has decreased 59 percent as good uses of the park by the Conservancy have driven out bad uses. Additionally, the city has generated revenue from the renewal of Central Park, taking in \$4.25 million in concessions from skating rinks, vendors and many other sidewalk businesses.

#### *Vehicle Fleet Management*

Vehicle fleet operations, maintenance and management are rapidly growing areas of competitive sourcing within state and local government. The management of vehicle fleets is a highly commercial activity, well-suited for private provision. The private sector can focus on the fleet itself while government can focus on the services that fleet provides.

Private-vehicle fleet maintenance is widespread among local governments, though a relatively new practice for states. Governments seeking to privatize fleet maintenance can employ several privatization techniques, including:

- Contracting out for specific services such as maintenance and repairs (most common);
- Selling the fleet and then leasing vehicles from a private company;
- Renting vehicles from a private company as needed; or
- Giving state employees vouchers in exchange for using personal vehicles for state business.

There are different approaches to outsourcing vehicle fleet operations, depending on the policy goals of the government. Those objectives could include long-term operational savings, fleet structural changes or the transfer of financial risks away from taxpayers. After a bid is accepted, it is important for the government to monitor services provided to ensure the contract is being followed.

One of the most successful examples of introducing competition into vehicle fleet management is Indianapolis. In the spring of 1995, Indianapolis Fleet Services (IFS) was selected over three of the largest private-sector vehicle maintenance providers in a managed competition for a city-wide fleet services contract. Competition prompted IFS to streamline and make other operational and structural changes that made them competitive on costs. It cut middle-management positions and enabled employees to create self-managed work teams, giving mechanics more control over their work and allowing IFS to simultaneously shrink its workforce and improve quality.

#### *Conclusion*

None of the potential benefits are guaranteed. Successful asset divestiture and outsourcing require a well-designed program with a staff trained and dedicated to making the program work. But if the state of Indiana and its municipalities invest the right resources to ensure these programs work, asset divestiture and outsourcing can generate substantial cash up front without obligating the city to future spending and programs. Moreover, the state and those municipalities may end up improving the quality of programs, services and infrastructure available to their cities as a happy by-product of dealing with their fiscal problems.

*Indianapolis Fleet Services, in competition for a city contract, cut middle-management positions and enabled employees to create self-managed work teams, giving mechanics more control over their work and allowing the firm to simultaneously shrink its workforce and improve quality.*

#### *The Michigan Tipping Point*

State lawmakers will soon face large budget deficits again, perhaps as much as \$100 billion across the U.S. Here's some free budget-balancing advice: Steer clear of the Michigan model. The Wolverine state is once again set to run out of money, and it is once again poised to raise taxes even as jobs and businesses disappear. . . . As *the Detroit News* put it, Michigan businesses are continually asked "to pay more in taxes to erase a budget deficit that, despite their contributions, never goes away." And this is despite the flood of federal stimulus and auto bailout cash over the last year. Following her 2007 misadventure, Governor Granholm promised: "I'm not ever going to raise taxes again." That pledge lasted about 18 months. Now she wants \$600 million more. . . . There are now 637,000 public employees in Michigan compared to fewer than 500,000 workers left in manufacturing. Government is the largest employer in the state, but the number of taxpayers to support these government workers is shrinking.

# WHAT HOOSIERS CAN LEARN FROM SANDY SPRINGS, GEORGIA

*You can start a contract city from scratch.*

*Fed up with high taxes, poor service delivery and a perceived lack of local land-use control, Sandy Springs and other new Georgia cities contract out for nearly all government services.*

by **LEONARD GILROY**

The current fiscal crisis is driving Indiana policymakers to seek new ways to do more with less. As such, the outsourcing of public services — a well-established policy-management tool used to drive cost savings and efficiency and process improvements — is garnering significantly more attention among municipal policymakers.

Municipal outsourcing is hardly new to Indiana local governments. Indeed, former Indianapolis Mayor Stephen Goldsmith applied competitive sourcing to dozens of city services in the 1990s and helped launch a national “managed-competition” movement (competitive bidding between public employees and private firms to provide public services). Today, current Indianapolis Mayor Greg Ballard is advancing a number of major outsourcing and public-private partnership (PPP) initiatives. Further, many Indiana cities and counties already routinely contract out for waste collection, recycling, water-system operations, information technology and many other government services or functions.

However, what may surprise many local Hoosier policymakers is the extent to which other communities have embraced competition and outsourcing, extending the model far beyond what we’ve seen in Indiana to date. For instance, over the last four years, five new cities serving over 200,000 residents have incorporated

in metropolitan Atlanta, Georgia, as “contract cities.” These newly incorporated cities have opted to contract

out virtually all of their non-safety related government services to private firms, dramatically reducing costs and improving services along the way.

*Sandy Springs: Georgia’s First ‘New Contract’ City*

Fed up with high taxes, poor service delivery and a perceived lack of local land-use control, 94 percent of Sandy Springs, Georgia’s nearly 90,000 residents voted to incorporate as an independent city in 2005. Sandy Springs was the first new city in Georgia in 50 years (and the fourth-largest upon its incorporation).

What makes Sandy Springs interesting is that instead of creating a new municipal bureaucracy, the city opted to contract out for nearly all government services except for police and fire services. (Georgia’s state constitution requires these services to be provided directly by the public sector.) Originally created with just four government employees, the city’s successful launch was facilitated by a \$32-million contract with CH2M-Hill OMI, an international firm that oversees and manages day-to-day municipal operations. The contract value was just above half what the city traditionally was charged through taxes by Fulton County.

The city maintains ownership of assets and maintains budget control by setting priorities and service levels. Meanwhile the contractor is responsible for staffing and all operations and services. According to Sandy Springs Mayor Eva Galambos, the city’s relationship with the contractor “has been exemplary. We are thrilled with the



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way the contractors are performing. The speed with which public-works problems are addressed is remarkable.”

“All the public works, all the community development, all the administrative stuff, the finance department, everything is done by CH2M-Hill,” Galambos said. “The only services the city pays to its own employees are for public safety and the court to handle ordinance violations.”

Sandy Springs recently successfully rolled out its own police and fire departments. Counting police and fire employees, the city of 90,000 has only 196 total employees. Nearby Roswell, a city of 85,000 has over 1,400 employees. Furthermore, Sandy Springs’ budget is over \$30 million less, and by most accounts provides a higher level of service.

Sandy Springs has even managed to avoid fiscal crises prevalent in many jurisdictions since 2008. In its fourth year of cityhood, Sandy Springs officials reported in 2009 that despite a projected 20-percent decline in revenues in the current recession, operational expenditures and tax levels will remain stable and many planned capital expenditures will still proceed. Conservative fiscal management has produced a budget surplus exceeding \$14 million that will be used to cover revenue shortfalls; city officials note that these surpluses are distinct from the city’s current “rainy-day fund” — set at 16 percent of the total budget — which will not be tapped.

In fiscal year 2010, Sandy Springs will spend \$24.1 million of its \$97-million budget — nearly one-fourth — on roads, parks and sidewalk projects. By comparison, the city will pay only slightly more (\$26 million) to CH2M-Hill OMI for its operations contract. Mayor Galambos told *the Atlanta Journal-Constitution* in May 2009 that the city was in “catch-up” mode on capital projects, since Fulton County had neglected infrastructure prior to incorporation. She added, “What we’re putting into capital annually is about what the (Fulton) County Commission used to steal from us annually.”

#### *Sandy Springs Inspires Imitators*

Sandy Springs’ incorporation has been perceived as such a success that four new cities — Johns Creek, Milton,

Chattahoochee Hills and Dunwoody — have been formed since 2006. These cities employ operating models very similar to Sandy Springs. Johns Creek, Milton and Chattahoochee Hills even use the same contractor (CH2M-Hill OMI), although the newest city of Dunwoody (population 65,000) opted to contract out the bulk of its services to different contractors in three large “bundles” — public works, community development and financial and administrative services.

Severe revenue shortfalls in the current recession — over 30 percent less than projected — have recently prompted the two smallest of the cities (Milton and Chattahoochee Hills with a combined population of less than 10,000) to discuss canceling their contracts. Revenues are simply not there to support the contract, and they plan to pursue alternative delivery methods. In Milton’s case, officials are exploring the possibility of continuing to partner with the contractor to provide a smaller package of public works and other services. In both cases, city officials stressed that it was their dire fiscal condition — not dissatisfaction with the contractor — that drove their decisions.

In this respect, the bundled-service model may not be the best approach for small communities with a few thousand residents. These communities tend to be more vulnerable to economic shocks and revenues shortfalls. The larger cities of Sandy Springs, John’s Creek and Dunwoody have weathered the current recession quite well, demonstrating the resilience of their approach to outsourced service delivery. Smaller communities may want to consider the innovative comprehensive approach used by Sandy Springs, where service levels can be adjusted by the contractor and city council working together on priorities and goals, or by using more conventional competitive bidding or contracting out for individual services.

Notably, the “Sandy Springs model” seems to be gaining steam. In 2008, city officials in the recently incorporated Central, Louisiana (population 27,000), unanimously selected CH2M-Hill OMI to deliver a full range of municipal services — including public works, planning and zoning, code enforcement and

*Sandy Springs, counting police and fire employees, has 90,000 residents and only 196 total employees. Nearby Roswell, a city of 85,000 has over 1,400 employees.*

*Contract cities were able to start with a blank slate and ask fundamental questions about what role government should play, such as “if we weren’t doing this yesterday, would we do it today?”*

administrative functions — as part of a three-year, \$10.5-million contract.

#### *Contract Cities Not New*

While the contract city concept may be new to Georgia (and Indiana), it can trace its lineage back to the city of Lakewood, California, and the subsequent “Lakewood Plan.” Incorporated in 1954, Lakewood used an innovative and cost-effective strategy to contract for city services. The City Council set local policy, performed community-planning tasks and set the annual budget. However, the services were provided through contractual arrangements with private companies and neighboring governments.

Lakewood triggered a wave of incorporations in California that led to the creation of the dozens of contract cities which still exist today. The “Lakewood Plan” also inspired the founders of Weston, Florida — a 1990s start-up community of 65,000 in Broward County with a \$100-million annual budget — to follow a comprehensive outsourcing model much like that seen in the Georgia cities today. Weston incorporated after years of poor public service and spiraling costs, opening its doors with just three city employees, a comprehensive operations contract, and intergovernmental agreements for public-safety and utility services. Today, Weston still has fewer than a dozen city employees.

In the words of John Flint, Weston’s City Manager: “Over what the county was providing, there was a dramatic increase in the quality of services, with the next jurisdiction in the county more than double our property taxes.”

#### *Lessons for “Traditional” Cities*

On the surface, it may appear that there are few lessons “traditional” local governments in Indiana can learn from Sandy Springs and Weston. After all, the contract cities had a blank slate with which to start and did not have to contend with potential political resistance from the existing municipal bureaucracy, public employee unions and other stakeholders.

However, the successes of the contract cities should be sufficient evidence to compel leaders of traditional cities to, at

a minimum, explore the opportunities potentially achievable through a more-extensive approach to outsourcing. According to Oliver Porter, a former corporate executive who crafted the framework for Sandy Springs and served as a consultant to the four new Georgia cities that followed: “The results are clear. The PPP (Public Private Partnership) is a successful method for implementing new cities. I am firmly convinced that the same level of success can be achieved by the conversion of existing cities to the model.”

Indeed, among the powerful lessons local governments can draw from these experiences are:

- *Privatization and outsourcing, if done properly, is a foundational pillar for smart fiscal management:* By using the opportunity of incorporation to shift to a privatized government model, Sandy Springs is getting more and higher-quality services at less than half the cost of what taxpayers had been paying to Fulton County. Even amid a national recession, Sandy Springs continues to make major investments in community infrastructure and has built up a healthy reserve, all without having to make significant budget cuts.

- *Rethink the status quo, and ask the “make or buy” question:* Taking a page from management guru Peter Drucker, every “traditional” service or function should have to prove its worthiness and proper role and place within government. Contract cities like Sandy Springs were able to start with a blank slate and ask fundamental questions about what role government should play, such as “if we weren’t doing this yesterday, would we do it today?” Once they whittled the list down to those core functions deemed necessary, they then asked whether they should “make or buy” those services, opting to contract out as many services as possible to the private sector to get the best value for taxpayers. Traditional cities should not hesitate to ask these same questions regarding existing services.

- *Think big:* Sandy Springs and the other contract cities prove that the central question on the subject of outsourcing should not be “what can we privatize?” but, rather, “what can’t we privatize?” Outside



of public-safety services, the courts, and policymaking functions, the private sector has proven repeatedly in the contract cities that there is nothing in the routine operations of government — those things with which citizens interface most directly — that cannot be privatized.

- *Bundle services for better value:* Traditional cities may find greater economies of scale and cost savings through bundling several — or even all — services in a given department (e.g., public works) or departmental subdivision (e.g., facility management and maintenance) into an outsourcing initiative, rather than by treating individual services or functions separately.

There have been several instances of governments moving toward this approach since 2008. Centennial, Colorado, privatized all of its public-works functions in 2008, while Bonita Springs, Florida, privatized all of its community-development services (planning, zoning, permitting, inspections and code enforcement) that same year. Pembroke Pines, Florida, privatized its entire building and planning department in June 2009, while a proposal to privatize Tupelo, Mississippi's, public-works department was under serious consideration until it was voted down by the city council in February. Also, the state of Georgia signed a large-scale outsourcing contract for the management and maintenance of numerous secure-site facilities held by the Department of Corrections, Department of Juvenile Justice and Georgia Bureau of Investigation.

- *Focus on building procurement and contract management expertise:* Successful outsourcing initiatives require good contract negotiation, management and monitoring skills on the part of city managers. The further a city moves toward full privatization, the greater the degree to which the city manager's role will center on contract administration — monitoring and enforcing contracts to ensure that the contractor's performance lives up to its contractual obligations.

### *Conclusion*

Just moments after taking her oath of office upon incorporation, Sandy Springs Mayor Galambos said, "We have harnessed the energy of the private sector

to organize the major functions of city government instead of assembling our own bureaucracy. This we have done because we are convinced that the competitive model is what has made America so successful. And we are here to demonstrate that this same competitive model will lead to an efficient and effective local government."

All levels of government should periodically ask the fundamental questions about how governments operate and whether there is a better way. The experience of Sandy Springs, Weston and the many other contract cities around the country demonstrates that there is another way to govern. It is an approach that puts results, performance and outcomes first, rather than focus on process or systems to deliver high-quality public services at a lower cost. With a focus on efficiency — but more importantly, effectiveness — of public services, contract cities have embraced the power of competition to determine how services will be provided.

In order to keep tax burdens and the price of government low, and the economy and business climate vibrant, it is clear that Indiana's local governments can learn important lessons from contract cities' approaches to governance that can help put them back on strong fiscal footing. Q

*"We have harnessed the energy of the private sector to organize the major functions of city government instead of assembling our own bureaucracy. This we have done because we are convinced that the competitive model is what has made America so successful. And we are here to demonstrate that this same competitive model will lead to an efficient and effective local government."*

— Sandy Springs Mayor Eva Galambos

### *Hooray for the Un-Hip*

For the past decade a large coterie of pundits, prognosticators and their media camp followers have insisted that growth in America would be concentrated in places hip and cool, largely the bluish regions of the country. . . . This narrative, which has not changed much over the past decade, is misleading and largely misstated. . . . The key factor may well be economic opportunity. Virtually all the supposedly top-ranked cities cited in this media narrative have suffered below-average job growth throughout the decade. . . . The problem is more than just too-large government; it lies in how states spend their money. Massive public-spending increases over the past decade in California, New Jersey, Illinois and New York have gone overwhelmingly into the pockets and pensions of public employees. . . . This continued erosion of jobs and the middle class from the blue states and cities is not inevitable. Many of these places enjoy enormous assets in terms of universities, strategic location, concentrations of talented workers and entrenched high-wage industries. But short of a massive and continuing bailout from Washington, the only way to reverse their decline will be a thorough reformation of their governmental structure and policies.

— Joel Kotkin, "Blue State Exodus," *Forbes Magazine*, Nov. 3, 2009

## A TALE OF THREE CITIES

*An Indiana sheriff draws economic lessons from the intransigence of his Massachusetts hometown.*

*The stress of unbalanced budgets and lost jobs might serve to refocus Indiana's attention on how wealth is created.*

by JOE SQUADRITO

Five years ago, the editor of this journal asked me to tell the story of my hometown. I warned him that it was not a pretty story. Indeed, it was one of tragedy, of human suffering and of folly, all sprinkled with persistence and even heroism.

My hope was that its lesson, especially the economic ones, would be a warning to Indiana's mayors and councils then fashioning municipal government's role in the economic development of their cities.

My hope was not realized. Indeed, if any mayor or councilman read the story, to my knowledge he or she did not act on its lessons. In fact, Hoosiers these past five years seemed to have reenacted the tragedy that my family watched unfold in the Massachusetts of my youth many years ago.

So I'm going to tell the story again — pretty much as I told it the first time, but with the current economy as a backdrop. The stress of unbalanced budgets and lost jobs might serve to refocus Indiana's attention on how wealth is created.

### *From the Beginning*

In the heart of the Merrimack Valley of northeastern Massachusetts, three cities sprang up as a result of the Industrial Revolution — Lawrence, Lowell and Haverhill. The Essex Company, which consisted of Boston entrepreneurs (fathers of the Industrial Revolution), built their most-ambitious development there — the greatest textile manufacturing communities in the world at what is now the river cities of Lawrence and Lowell.

The Merrimack River was harnessed by means of a dam at Lawrence that ensured water for industry at both locations. A multitude of man-made canals supplied off-river sites with the water necessary for steam power. The

Essex Company employed some of the best engineers in America in this valley, including Charles Storrow, who laid out every lot, park, street, neighborhood, church, school and alley of Lawrence, my hometown.

This massive industrialization meant jobs — more jobs than the rural population could provide. Young women were recruited from nearby farms and villages to fill the ever-increasing need for labor. Immigrants from throughout Europe were recruited. Lawrence saw a second wave of Irish immigrants, then Italians, Sicilians, Poles, Portuguese, French, French Canadians, Germans and Syrians. They emigrated to Lawrence by the thousands to fill the needs of the enormous factories.

Our neighboring city of Lowell saw many of the same ethnic groups, except by then the recruiting had moved to Greece and Armenia. Now by the tens of thousands, these immigrants came to work in these mile-long factories, living in "company flats," shopping at "company stores" and sending their children to "company schools."

### *Haverhill*

Haverhill was not part of the Essex Company, although located on the Merrimack River east of Lawrence. Its primary business was shoes and leather goods. Smaller in scale and in terms of industrialization, Haverhill was at one time the shoe capital of America. Haverhill, as did its sister cities, depended on the Merrimack River for the water to power its steam engines.

And as Lowell and Lawrence, it would depend on immigrant labor in the processing and manufacturing of its goods. Haverhill imported its labor force from France and the French-speaking provinces of Canada.



*Joe Squadrino is an adjunct scholar of the foundation and a custom carpenter in Allen County, where he served as sheriff from 1992 until 2000.*

These huge industrial complexes, some of which encompassed two square miles, were sweatshops. Workers were treated poorly, paid poorly and were forced to live and work in what we would consider today deplorable conditions. These conditions had grown intolerable by the turn of the century and civil disorders erupted. The “Bread and Roses Strike” of 1912 in Lawrence led to military action under the command of Douglas MacArthur. More than a dozen Italian workers were killed on the street outside the Woods Mill. It resulted in this nation’s first labor laws.

When I was growing up there, the streets of Lawrence were called “The Canyons” because the three- and four-story tenements kept sunlight from reaching the streets below. The feeling was one of walking through the basin of a canyon with nothing but shadows surrounding the streets and sidewalks. I remember walking through the canyons on my way to school, and even at high noon that street seemed dark and dingy. My family was fortunate in that we lived in what was formerly the old Irish neighborhood of single-family Victorian homes. My parish school, however, was in the Italian neighborhood down by the factories. My daily walk to school and back took me through the Polish, Portuguese and Syrian neighborhoods.

Each block brought a different language. Each neighborhood brought a different bakery with an aroma so unique that even blindfolded I could tell the neighborhood and the time of day. I remember, too, a low-level hum constant both day and night. Later, I learned from my Uncle Charlie that this was the sound of the enormous steam turbines powering the plants. He told me that if all of the turbines from all of the plants were placed in tandem to electrical generators they would produce enough electrical energy to light the entire East Coast. My uncle’s claim seemed credible at the time; after all, he worked in the boiler room of the Woods Mill from the time he arrived in America until it finally closed, a span of 50 years. My uncle’s explanation, coming amid the uncertainty of the Korean War, gave me a feeling of security.

#### Lawrence

Things seemed fine in my hometown as I grew to manhood. All of the factories were bustling, new homes were going up in the suburbs. And new government schools, at the cost of one million dollars each, were springing up everywhere. Everyone seemed to be driving a new car, and enrollment at my parish school was bursting its seams. Things were good. Some of my older cousins went off to college, which made my immigrant family exceedingly proud. Little did any of us realize that our entire world was about to change forever. Not one of my cousins would return to Lawrence, not one of the enormous mills would remain open.

Tens of thousands of people would be out of work in both Lawrence and Lowell. Shortly thereafter, Haverhill would see the collapse of its shoe industry. All three cities would face far worse times than in the Great Depression. Then, the plants were only idle. Now, they sat empty, void of their enormous looms, bobbins, turbines and, most important, their people — forever. I remember the headlines in the *Lawrence Evening Tribune*: “Century Old Plants” and “High Labor Costs” and “Taxes” and “Environmental Concerns Cited.” None of that meant much to me at age 10 or 11. What did mean something to me was when a childhood friend, a baseball buddy and classmate, choked with tears, told me that his family was moving to California. His father, a chemist, had found a job there.

This same story soon was repeated throughout my neighborhood and my city. One by one, day after day, homes went up for sale or were boarded up. Soon, the business district became vacant and it, too, was boarded up. Jackson Plaza, the gated street of the textile barons, was chained shut. My parish school, its convent and our church were closed for good. Over the next decade, whole blocks were vacated. The business district was defaced by vandals, neglect and arson. To add to this despair, the remains were left standing in spite of their hazards. The Essex Company, you see, held title to many of those structures or the land beneath them, and by the time the courts cleared the titles from the defunct partnerships, the

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city had no revenue to fund demolition. Several years ago, my wife and children visited my mother, who now lives to the north of Lawrence. As always, we drove down to my old neighborhood and visited the Italian bakery.

As we passed through the streets, the ones I walked as a child, my daughter looked around half-stunned and asked: "Is this what the war did, Daddy?" There was dead silence as her father struggled for an answer that a young child would understand. How do you explain all this? The failure of a people and their government? How would I explain such a past to a child and still give some hope for the future? Indeed, this essay stems from my attempt to answer my daughter's question. It is why I have gone into such detail in relating the recent history of my hometown and its sister cities. I did so in hopes that the hometown of my adulthood, Fort Wayne, would recognize the signs of decline and avoid the false solutions, the pitfalls of depending on governments rather than themselves.

For Lawrence was a special case in that the late President Lyndon B. Johnson attempted to make it his "Model City" under the Great Society. However, once the federal money stopped flowing into Lawrence so did its initiative. Lowell and Haverhill, in contrast, received far fewer federal dollars. Yet, they bounced back.

How did these cities recover while Lawrence stagnated?

*Lowell*

The city of Lowell took a good, hard look at where it was. Next, it took a realistic look at where it wanted to be. To complete the equation, Lowell figured out the best path to get there. The city did not fixate on its past and the restoration of the textile industry. Instead, it took inventory of its assets. It highlighted them and made itself marketable to new industries. Lowell did not fight the occasional flooding of the Merrimack River. Instead, it developed the riverfront into somewhere to eat, shop and be entertained. The all-important "attitude" came to the forefront as well as the atmosphere sought by successful businesses — that is, a respect for private property and the risks of investment, plus

a commitment to lowering the costs of capital formation, *i.e.*, jobs.

As a result, the city retained its youth, including a future U.S. senator named Paul Tsongas. It was Tsongas who taught his city to rise above mere boosterism to sell itself on its economic merits. Lowell was therefore able to capitalize on the technology boom. Wang Laboratories, now IBM, set up there. My late brother-in-law relocated his business there from the Silicon Valley in order to serve the computer industry. Success bred success, and Lowell had prepared for success.

Today, Lowell enjoys the fruits of these endeavors. It has become a Mecca of both relocated businesses and start-ups. Even in these hard times, Lowell is moving forward. Haverhill took a slower path to recovery. The city, elevated from the riverfront, was developed later. It is situated downstream from Lawrence, thus east of the dam and an ideal mooring for larger watercraft. Now, seven industrial parks exist there, and the growing research industry has found it ideal for its young, well-educated employees.

### *Conclusion*

There is no reason the hometown of my adulthood, Fort Wayne, or, for that matter, any other Indiana city, must repeat the mistakes of Lawrence. Nor are Indiana cities incapable of repeating the successes of Lowell and Haverhill. With the exception of the Atlantic Ocean, Indiana cities have everything that these New England cities have and more. We have the rivers. We have the highways. We have a great geographic location and can deliver our work product by land or air anywhere in the world. We have an intelligent workforce and plenty of excellent educational institutions. We have medical facilities and physicians that are the best. Our housing is both enviable and affordable and within walking distance to the most beautiful parks in America.

None of our cities can afford to be a "company town." The events of the past 20 years have taught that. Let us look back at our past with respect and gratitude. Let us also look to the future with optimism and the excitement of tomorrow.

To paraphrase Abraham Lincoln, "We will prepare ourselves and our chance will come." Q



# DECREASING SUPPLY AND DEMAND CURVES MEANS FEWER HOURS WORKED

by MARYANN O. KEATING

(Nov. 8)— There is no better tool for understanding markets than economists' supply and demand. If used correctly, it tells us what we know and, more importantly, what we do not. For example, consider the labor market represented in the diagram at right. Note that households supply labor and firms demand and pay for these services. At any point in time, the market is tending toward an equilibrium wage rate and a certain equilibrium quantity of employment.

Starting from this initial equilibrium, let us consider the effect of simultaneous policy changes affecting both the supply and demand in the labor market. Consider an increase in taxes on employment earnings, such as the county optional income tax that was recently increased by 0.95 percent in St. Joseph County. Such taxes reduce the take-home pay of each worker. Households, particularly two-earner households, will reduce the number of hours they are willing to provide; this applies to those with high and those with low hourly rates. The effect is to shift the supply curve of labor to the left. At any given wage rate, households will work less, retire earlier, paint their own houses, and eat out less. Watch out, children, here comes Mom with the hair clippers.

Now, let's consider the effect of a proposed national law requiring firms to either provide health insurance for full- and part-time workers or pay a penalty tax per worker. If the proposal passes, firms will be forced to lay some employees off. Unless a firm can pass the tax on to customers in the form of higher prices, revenue generated from marginal labor is insufficient to cover increased employer costs. The effect will be to shift the demand curve for labor down and to the left in the above diagram. At every wage rate, firms will demand a lower quantity

of labor due to the increased cost of labor.

Where will the new equilibrium be? No economist would admit to knowing the definitive answer to this question. The intersection of the new supply and demand curves could result in an equilibrium wage rate that is higher, or lower, or the same as the previous rate, depending on the relative sizes of the shifts. The change in the wage rate will vary in each industry and in each part of the country depending on the shape of the curves.

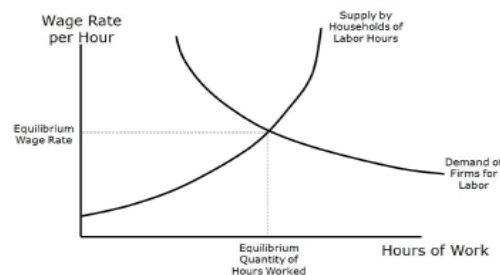
But this analysis is unambiguous about the effect on the quantity of labor employed. It is logically impossible for the new demand and supply curves to intersect at the same equilibrium. As sure as water runs downhill, the amount of labor supplied and the amount of labor demanded declines. Therefore, the equilibrium number of hours worked decreases.

From a micro point of view, each household and each firm responds in a particular way. A few households, those in dire need and those stubbornly refusing to conduct their lives according to the tax code, will continue to supply the same amount of labor at a reduced take-home rate.

Also, certain firms can absorb increased labor costs by accepting lower profits. On a macro level, however, incentives matter, decision-makers respond to lower take-home wages and increased costs, and hence the labor market will adjust and hours worked will decline.

*"At any given wage rate, households will work less, retire earlier, paint their own houses and eat out less. Watch out, children, here comes Mom with the hair clippers."*

— Maryann O. Keating



Maryann O. Keating, Ph.D., an adjunct scholar of the foundation, is a member of the associate faculty at Indiana University South Bend.

*“As an instructor of economics, I have misgivings and obviously some regrets about the long-term economic insights absorbed by students. Perhaps, it is time for a five-minute review.”*

— Maryann O. Keating

If employment decreases dramatically, total tax revenue from wages could actually decline. If, on the other hand, total population and business activity is growing, tax revenue is likely to increase in spite of policies discouraging people from working and firms from hiring. In areas of low economic growth, however, government will have to be clever in deciding on the optimal tax rate on labor, neither too high nor too low, to yield needed tax revenue. In the worst-case scenario, programs will be designed to keep people working in order to collect the targeted amount of taxes derived from wages needed to finance government spending. The Earned Income Tax Credit is but one example. Other tax proposals suggest tying certain benefits, such as loan reduction at state schools, in return for paid employment in certain designated industries. Of course, such proposals will be sold politically in terms of benefiting education and medicine, not as a way of encouraging people to stay active in the labor force.

Households, in order to make good decisions, need to know approximately how much they will take home out of every dollar earned. Firms need to be relatively certain about the costs involved in hiring each worker. Government laws and regulations should not be designed to extract the highest amount of tax revenue possible from labor income. Taxes, like death, are certain, but, ideally, they should be neutral with respect to various activities. Transparent, predictable and limited tax rates free up the decisions of those entering both sides of the labor market, either as households freely supplying their labor in return for income or as firms willing to employ workers and pay wages.

#### *Now Is a Good Time to Bone Up*

(May 20) — In the past few months, as the U.S. stock market declined and unemployment increased, several former students indicated to me that they would have preferred to be studying macroeconomics this semester. Evidently, they did not learn as much as they would have liked in previous classes.

As an instructor of introductory economics, I have misgivings and obviously some regrets about the long-term economic

insights absorbed by students. Perhaps it is time for a five-minute review.

A typical introductory macroeconomics class consists of four parts. In the first section, after quickly reviewing supply and demand, the uses and limitations of the unemployment rate, price indexes and gross national product are introduced as measurements of economic well-being in a particular economy such as the United States.

The second section offers a theoretical model of the flows of consumer, government, business and export-spending within the domestic economy. If the spending stream is insufficient to maintain normal unemployment, inventories rise and businesses cut back on production.

“How or should officials respond to increasing unemployment and economic distress resulting from reduced private spending?”

One solution, associated with 1930’s economist John Maynard Keynes, is for government to run budget deficits to ensure that employment and production not slip beyond some targeted range. Each additional dollar of government spending, given excess productive capacity, can create a multiplier effect on total spending. This is normally referred to as discretionary “fiscal policy.”

Another option in dealing with business cycles is to admit that the market is subject to ups and downs along its long-term growth path. However, within 18 months to two years, the economy will self-correct unless aggravated by misguided official policy.

The third section of macroeconomics studies how a central bank, in our case the Federal Reserve (the Fed), controls liquidity to encourage financial institutions to expand or contract lending, increasing the money supply. Whenever unemployment rises and production decreases, the Fed generally increases liquidity in order to lower interest rates. Lower interest rates, it is hoped, will stimulate consumption and investment. This is referred to as “monetary policy.”

Too much liquidity, as productive capacity is approached, leads to a sustained increase in average prices, called inflation. Inflation reduces the real incomes of all

workers, lowers real returns to lenders and decreases exports. As well, the Fed is expected to operate non-politically to maintain the purchasing power of the dollar by keeping prices relatively stable.

As time permits, the fourth section of a macroeconomics class deals with conflicts between trying to achieve full employment and price stability, between government deficits and required interest payments on the national debt and between domestic prices and the value of the dollar in international markets. We also discuss shocks to the economic system and self-fulfilling expectations.

About half-way through the class, students begin to question the instructor: "Do economists really know or agree on anything?" The somewhat unsatisfactory answer is that economists generally agree on how to approach specific economic problems. However, economic goals conflict, there are always some unintended consequences and the timing of policy effectiveness is imprecise.

"Can politicians or government officials control the economy?"

Yes, they certainly can use the coercive power of government to destroy the market economy, or, on the other hand, they can abdicate their responsibilities in providing clear and consistent laws and regulations necessary for prosperity and economic growth.

"To what degree should the government be involved in the economy?" This depends in a democracy on the constitution and the wishes of the people expressed through voting. Economists assist in outlining some of the consequences of any policy decision; each decision has to be carefully explained and diligently debated.

"But what do you, our instructor, personally believe about macroeconomic policy?"

Markets should be allowed to operate within the law, but officials have the responsibility to monitor and act if indicators of economic distress greatly exceed normal levels. If necessary, fiscal policy should target unemployment independently of monetary policy which is best suited to maintain price stability and the value of the dollar.

Open and free trade is in every nation's best interest. The United States is the most

efficient world producer of certain goods and services which we export abroad. Producers and consumers benefit by opening their markets to lower-priced products from abroad. Altogether, a healthy and well-prepared workforce, individuals willing to assume risks and a government committed to enforcing contracts will ensure both the economic growth of the United States and its global competitiveness.

It is the instructor's prerogative to ask the final question, one that not only my students but every citizen should be addressing today:

"In detail, what would you do personally as an elected official to nudge the economy back onto a path of positive growth and prosperity?"

## The Economics of Earmarking: A Case of Mixed Emotions

by CECIL BOHANON

(July 1)—Congressman Mike Pence's refusal to earmark federal transportation funds for specific projects related to Ball State University has been criticized, not surprisingly, by many in my university community.

As a BSU faculty member and homeowner near campus, I certainly appreciate the road improvements that have flowed from the specific earmarks of both Congressman Pence and his predecessor David McIntosh. Yet, as a political economist I see another side to the issue.

A logical way for financing local public-works projects is for local taxpayers to bear the costs of those projects. A beautified street in Muncie, Indiana, or a new campus building at Ball State University may well benefit Muncie residents and university constituents. It is hard to see, however, how such spending benefits residents of Portland, Maine, and hard to make a case that those residents ought to pay taxes for our streets or building (or vice-versa).

Successful elected officials have a natural incentive to seek re-election. A tried-and-true way of garnering local votes is to obtain national funding for

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— Cecil Bohanon



Cecil E. Bohanon, Ph.D., teaches economics at Ball State University.

*"Would you pay \$1,000 so that someone — probably not you — can ride high-speed trains less than 60 miles a year?"*

— Randal O'Toole

the local district's public-works projects. The elected official can credibly claim that the district's voters get valuable goodies, courtesy of their friendly incumbent, that are paid for by taxpayers outside their district. Never mind whether the local public-works projects have value in correspondence to their costs: Local constituents don't bear the costs — so the visibility, publicity and vote-generating potential of the project are the overriding considerations for the appropriation. Earmark provisions should be called by their rightful name: "incumbent re-election slush funds."

This whole game, of course, is a collective fraud: If my congressman can effectively steal from the 434 other districts of the nation, my district can be better off. If all 435 congressional representatives, however, get to play the game, then certainly most of us, perhaps all of us, will be worse off. It is logically impossible for everyone to steal from everyone else, although the political rhetoric mutes this reality.

If this is a silly game to play it is a difficult one to end. If one congressman decides not to play, his constituents are left bearing the burden of financing the remaining 434 districts while forgoing any local benefits. Please note this is not because our elected officials are somehow more venal or sinful than the rest of us, or that we can somehow solve the problem by electing "better" politicians. Elected officials respond to incentives like all of us. As long as national funding for local projects is an option, the incentives are in place for this collective shell game. Only the public's return to the original constitutional ethic of limited federal government can solve the problem.

Interestingly, Congressman Pence (and the others who are refusing to earmark) are not really opting out of the game. They are only forgoing making specific mandates for how federal transportation funds will be spent — the funds still flow to the district (in this case, to the Indiana Department of Transportation or IDOT).

Theoretically, the funds that would be earmarked to Ball State University could go to the university via IDOT, and as a faculty member and local homeowner I can honestly say I hope they do. As a citizen

and patriot, however, I would like to see the system changed. I hope by forgoing the publicity gains of specific earmarks, and incurring the wrath of their absence, we can begin a return to fiscally sound constitutional principles.

## High-Speed Rail Is Just High-Speed Spending

by RANDAL O'TOOLE

(June 22)— This summer, the Federal Railroad Administration (FRA) released criteria for applications from Indiana for spending its share of the \$8 billion of stimulus money that Congress allocated to high-speed rail. Which raises a question: Would you pay \$1,000 so that someone — probably not you — can ride high-speed trains less than 60 miles a year?

That's what the FRA's high-speed rail plan is going to cost: at least \$90 billion, or \$1,000 for every federal income taxpayer in the country.

And that's only the beginning. Count on adding \$400 for cost overruns. Taxpayers will also have to cover operating losses: Amtrak currently loses \$28 to \$84 per passenger in most of its short-distance corridors.

The FRA plan also has huge gaps, such as Dallas to Houston, Jacksonville to Orlando and the entire Rocky Mountains. Once states start building high-speed rail, expect local politicians to demand these gaps be filled at your expense. And don't be surprised when the government asks for billions more in 30 years to rebuild what will then be a worn-out system.

What would we get for all this money? Unless you live in California and maybe Florida, don't expect superfast bullet trains. In Indiana and most of the rest of the country, the FRA is merely proposing to boost the top speeds of Amtrak trains from 79 miles per hour to 110 mph.

A top speed of 110 mph means average speeds of only 60-70 mph, which is hardly revolutionary. Many American railroads were running trains that fast 70 years ago. Q



*Randal O'Toole is a senior fellow with the Cato Institute. This is an excerpt of a larger article.*



# TORIES AND WHIGS: PARSING THE ISSUES, PINING FOR LEADERSHIP

*Some set their hopes on intelligent public service;  
others trust only in constitutional proscription.*

*"I don't use the 'L' and the 'C' word. I don't talk about liberals and conservatives."*

— Gov. Mitch Daniels at a Washington symposium in June hosted by the Bradley Center for Philanthropy and Civic Renewal.

A survey of foundation members finds two distinct but sympathetic groups among the conservative-minded. You can call them "Tories" and "Whigs," labels of arguable historic application but nonetheless of use in understanding why the governor had so much trouble during the last regular session.

The Tories are exemplified by the established GOP from the Statehouse to the county chairmen. They are confident things will get better, *i.e.*, more efficient, if they put smarter, more capable people in office — yes, people a lot like themselves.

And then there is a loose combination of classical liberals, staunch conservatives and the economically savvy among the religious right. These are the Whigs, rarely in positions of power or influence but with enough stubborn backbenchers and trouble-makers to cause even a budget-balancing governor headaches.

Hoosier Whigs contest the very idea that office-holding can by itself drain this swamp in which we find ourselves. They argue instead that it must begin with a reduction in the size of government carried out with adherence to the exact words of the U.S. and Indiana constitutions. These people are not ready "to get over" Ronald Reagan.

The complaint of the Whigs, they will tell you, is not only that government is wasteful, incompetent, unjust or even corrupt — the themes of a typical Tory campaign. Their complaint is that government is government — that is, it

inevitably grows too big to be monitored by the limited energies of a hard-pressed citizenry.

Whigs therefore stress that constitutional restraints (Rule of Law) must be exceedingly heavy and most diligently applied, especially when there is a breakdown in the constitutional function of the free press (which the Founders assumed would help us keep watch on the quick, the clever and the powerful).

Here is how the differences played out in the foundation's opinion survey.

*Q. Given a political platform, which of these two planks is closest to your position: Make government more efficient or reduce the size of government.*

The 22 percent answering "more efficient" can assume to be Tories, the 78 percent answering "reduce the size of government" Whigs. The difference partly explains why a well-positioned group of GOP senators opposed a popular governor's plans to consolidate local government (townships) in the name of efficiency.

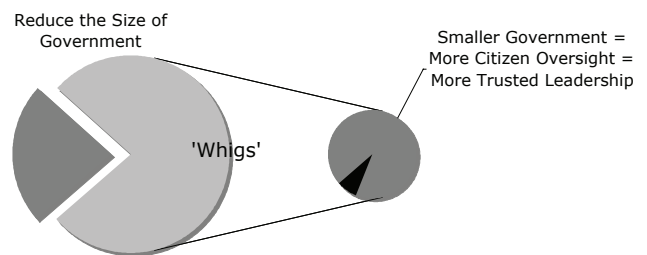
"Unfortunately, the Democrat desire for big government is opposed only by the Republican embrace of more efficient big government," commented a Whig.

"Efficiency is not evasiveness," countered a Tory. "What government does, surely we would like it to do competently. As much as I'd like to shrink government, there's not the political will to do so."

This division comes out as clearly in the next example, a question meant to differentiate between those who depend

*"Unfortunately, the Democrat desire for big government is opposed only by the Republican embrace of more efficient big government."*

— A survey respondent



*The foundation surveyed 403 of its correspondents (persons on its monthly newsletter list) between April 30 and May 3 using SurveyMonkey market research. There were 98 completed questionnaires for a response rate of 24 percent.*

*"Rights come from God, not government. The Bill of Rights contains several of them; the problem is that our courts have compromised all of them."*

— A survey respondent

on people rather than systems to keep government in check.

*Q. Which strategic formulation do you think best: (Smarter Elected Officials = Better Judgments = More Effective Government) or (Smaller Government = More Citizen Oversight = More Trusted Leadership)?*

Fully 75 percent of the Tories chose the strategy that begins with "smarter elected officials." Commented one: "How the person makes decisions is the crux of the matter. What kind of people does the person choose for staff positions? What results have they had in previous positions?"

But 93 percent of the Whigs chose the strategy that begins with "smaller government." "We don't need 'smarter' elected officials," wrote one. "We need them to simply and honestly keep their oath to obey the Constitution."

You can see the fault line: The governor lives and breathes efficient, smart government; the Whigs would like to hear him say at least a few nice words about Rule of Law or free-market principles.

Should we be discouraged by all of this?

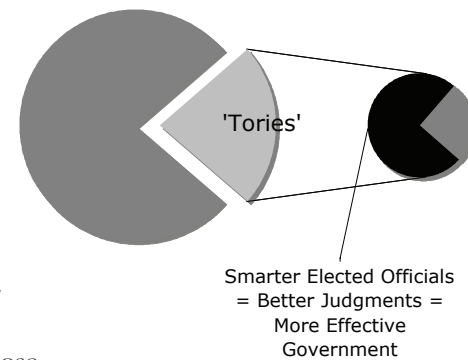
Not necessarily. Both factions want to get a handle on government — Tories putting their hopes in honest, intelligent public service, Whigs trusting only in systemic incentive and constitutional proscription.

Summoning a word picture from Sen. Jim Demint of South Carolina, "big tents need strong poles," we are reminded that pursuing principles does not necessarily mean losing elections.

The Tory game plan of staying in office regardless of issue or policy has been in place for many years now — both in Washington and Indianapolis. The case is easily made that it no longer works. The Whigs feel they deserve a turn at writing a GOP platform or two.

Indeed, the Whig message, forcible and clear, might appeal to today's hard-pressed constituency, one growing impatient with equivocations from a distant leadership. There is a line in the

Make Government More Efficient



movie "As Good as It Gets" that speaks to their frustration: "I'm drowning here," laments the hapless character Mel Udall, "and you're describing the water."

Another way of looking at it is that Tories come off as dependable, honest accountants at a time when our problems beg for a wild-eyed economist or two.

To illustrate, one survey respondent expressed disappointment that Republicans could cite only practicalities to excuse their failure to block a Democrat increase in employer contributions to the jobless fund.

"In tough times, the answer is never, never increase the tax burden," the respondent wrote. "The solution is leadership and examples that work."

Other survey responses, though, identified points of consensus for just such leadership:

Seventy-five percent of the Tories and 78 percent of the Whigs believe in one or more absolute rights — liberties — that cannot be abridged, revoked or in any way diminished.

"Rights come from God, not government," a respondent commented. "The Bill of Rights contains several of them; the problem is that our courts have compromised all of them."

Sixty-five percent of Tories and 96 percent of Whigs say they believe government must be limited, that politicians should have to obey constitutions "as they are written." "They already swear oaths to do just that," notes one.

"Can we all start here?" asked another. "As common ground?"

This session could provide the answer.

— tcl

# THE DESTINIES OF THOSE WHO SIGNED

*From an essay on the signers of the Declaration of Independence by Rush H. Limbaugh Jr., distributed by the Federalist Magazine*

• **Francis Lewis** — A New York delegate saw his home plundered and his estates, in what is now Harlem, completely destroyed by British soldiers. Mrs. Lewis was captured and treated with great brutality. She died from the effects of her abuse. • **William Floyd** — Another New York delegate, he was able to escape with his wife and children across Long Island Sound to Connecticut, where they lived as refugees without income for seven years. When they came home, they found a devastated ruin. • **Phillips Livingston** — Had all his great holdings in New York confiscated and his family driven out of their home. Livingston died in 1778 still working in Congress for the cause. • **Louis Morris** — The fourth New York delegate saw all his timber, crops and livestock taken. For seven years he was barred from his home and family. • **John Hart** — From New Jersey, he risked his life to return home to see his dying wife. Hessian soldiers rode after him, and he escaped in the woods. While his wife lay on her deathbed, the soldiers ruined his farm and wrecked his homestead. Hart, 65, slept in caves and woods as he was hunted across the countryside. • **Dr. John Witherspoon** — He was president of the College of New Jersey, later called Princeton. The British occupied the town of Princeton, and billeted troops in the college. They trampled and burned the finest college library in the country. • **Judge Richard Stockton** — Another New Jersey delegate signer, he had rushed back to his estate in an effort to evacuate his wife and children. The family found refuge with friends, but a sympathizer betrayed them. Judge Stockton was pulled from bed in the night and brutally beaten by the arresting soldiers. Thrown into a common jail, he was deliberately starved. • **Robert Morris** — A merchant prince of Philadelphia, delegate and signer, raised arms and provisions which made it possible for Washington to cross the Delaware at Trenton. In the process he lost 150 ships at sea, bleeding his own fortune and credit dry. • **George Clymer** — A Pennsylvania signer, he escaped with his family from their home, but their property was completely destroyed by the British in the Germantown and Brandywine campaigns. • **Dr. Benjamin Rush** — Also from Pennsylvania, he was forced to flee to Maryland. As a heroic surgeon with the army, Rush had several narrow escapes. • **William Ellery** — A Rhode Island delegate, he saw his property and home burned to the ground. • **Edward Rutledge** • **Arthur Middleton** • **Thomas Heyward Jr.** — These three South Carolina signers were taken by the British in the siege of Charleston and carried as prisoners of war to St. Augustine, Fla. • **Thomas Nelson** — A signer of Virginia, he was at the front in command of the Virginia military forces. With British General Charles Cornwallis in Yorktown, fire from 70 heavy American guns began to destroy Yorktown piece by piece. Lord Cornwallis and his staff moved their headquarters into Nelson's palatial home. While American cannonballs were making a shambles of the town, the house of Governor Nelson remained untouched. Nelson turned in rage to the American gunners and asked, "Why do you spare my home?" They replied, "Sir, out of respect to you." Nelson cried, "Give me the cannon!" and fired on his magnificent home himself, smashing it to bits. But Nelson's sacrifice was not quite over. He had raised \$2 million for the Revolutionary cause by pledging his own estates. When the loans came due, a newer peacetime Congress refused to honor them, and Nelson's property was forfeited. He was never reimbursed. He died, impoverished, a few years later at the age of 50. • **Abraham Clark** — He gave two sons to the officer corps in the Revolutionary Army. They were captured and sent to the infamous British prison hulk afloat in New York harbor known as the hell ship "Jersey," where 11,000 American captives were to die. The younger Clarks were treated with a special brutality because of their father. One was put in solitary and given no food. With the end almost in sight, with the war almost won, no one could have blamed Abraham Clark for acceding to the British request when they offered him his sons' lives if he would recant and come out for the King and parliament. The utter despair in this man's heart, the anguish in his very soul, must reach out to each one of us down through 200 years with his answer: "No."



Emanuel Gottlieb Leutze, oil on canvas, 1851



Thomas Hoepker, photograph, Sept. 11, 2001

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